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Future Prospects in the Chinese Markets and Guidelines for Finnish Companies in Using Design Knowledge as a Tool for Success

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<p>Purpose – This research aims to reveal business opportunities for Finnish companies through explorative analysis of the Chinese future markets, within the timeframe from present to year 2020. The research uses also design driven approach as a core framework and analytical setting throughout its analysis. The purpose of the design driven approach is to focus more on human-centric approaches rather than following frequently used business centric frameworks.</p> <p>Design/methodology/approach – This study provides a comprehensive overview and an explorative analysis of future prospects of Chinese markets in addition to holistic and general information about tools, methods and mind-sets used under design knowledge framework. The dataset for the study was gathered through various Internet sources, such as academic papers, consulting reports, institutional researches, news and twelve in-depth interviews, and the set was analysed by using the design framework as basis of analytical thinking.</p> <p>Findings – Despite the many challenges, China will have a huge business opportunities in its future, especially within the areas of private consumption, urbanization and sustainable solutions. The biggest difficulty found through the study was Finns immaturity to meet true needs of Chinese markets and thus, the design knowledge provides a suitable framework to start their business enhancement procedures.</p> <p>Research limitations/implications – Although the research contains a broad and wide-ranging overlook, it still lacks the in-depth analysis of narrow sectors under the research topic and therefore the study acts more as a starting point to generate more detailed academic questions and researches rather than being an all-inclusive encyclopedia. In addition, the research examines future issues and it cannot be taken as granted that the shared information will be valid in longer time perspectives and thus the research should be consider more as a projecting analysis.</p> <p>Practical implications – The research acts as a proper starting manual for personnel who are in charge of projects to improve the future performance of Finnish companies. In addition, the research provides a comprehensive information package to all who are interested in design driven approaches and China's development.</p> <p>Originality/value – This work challenges the traditional business thinking and market analysis by focusing on Chinese future market prospects throughout design driven framework. The study emphasizes the role of the customer as the core entity behind all business actions and therefore the study will share a human-centric approach to discover the tomorrows' opportunities</p>		
Keywords: Future prospects, China 2020, Design knowledge, Market and growth opportunities, Finnish companies, Business Strategy		

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<p>Työn tarkoitus – Työssä selvitetään erilaisia liiketoiminnan kehitysmahdollisuuksia sekä muita tekijöitä, joiden avulla suomalaisyritykset voisivat menestyä tulevaisuudessa paremmin Kiinan markkinoilla. Työ on rajattu nykyhetkestä vuoteen 2020 ja työn keskeisenä rakenteena toimii design-lähtöinen ajattelutapa, joka on yhdistetty exploratiivisiin tutkimusmenetelmiin. Työn tarkoituksena on tarjota ihmislähtöisempi näkökulma liiketoiminnan kehittämiseen ja design-lähtöisen ajattelutavan avulla pyritään löytämään luovia ratkaisuja, jotka tarjoaisivat suomalaisyrityksille etulyöntiaseman alati muuttuvassa markkinatilanteessa.</p> <p>Suunnittelu / Tutkimusmenetelmät / Lähestymistapa - Työ luo kattavan yleiskatsauksen sekä exploratiivisen analyysin tulevaisuuden näkymistä Kiinan markkinoilla. Työ nojautuu pitkälti sekundäärisen tutkimusaineistoon ja työssä hyödynnetään useita eri Internet-lähteitä, kuten akateemisia julkaisuja, konsultointiraportteja, uutisportaaleja sekä useiden insituutioiden toteuttamia tutkimuksia. Työn empiirisenä aineistona toimii kaksitoista haastattelua, joiden avulla sekundäärisen aineistoon perustuvia päätelmiä analysoitiin sekä kehitettiin eteenpäin.</p> <p>Havainnot - Lukuisista haasteista huolimatta Kiina tulee tarjoamaan valtavasti erilaisia liiketoimintamahdollisuuksia tulevaisuudessaan. Erityisesti kuluttajamarkkinat, kaupungistuminen sekä kestäväan kehitykseen liittyvät ratkaisut ovat potentiaalisia kasvunaloja. Työssä tehdyn tutkimuksen perusteella suomalaisyritysten suurin vaikeus on kiinalaiskuluttajien ymmärtäminen sekä heidän tarpeisiinsa vastaaminen. Työssä esitetyn design-ajattelutavan avulla ymmärrystä pystytään kehittämään sekä nykyistä kilpailuetua parantamaan.</p> <p>Tutkimuksen rajoitteet - Vaikka työ tarjoaa laajan ja monipuolisen katsauksen Kiinan tulevaisuudesta, se ei silti pysty tarjoamaan hyvin yksilöityä sekä tarkasti määriteltyä analyysiä. Työ toimiikin parhaimmillaan lähtökohtana uuden ja syväluotaavamman tutkimuksen pohjaksi. Työ tarkastelee myös kysymyksiä, joihin ei voida löytää yksikäsitteisiä vastauksia. On myös huomioitava, että päätelmät ovat työn kirjoitushetken aikana vallinneita projektioita.</p> <p>Käytännön sovellukset - Työ tarjoaa hyödyllisen käsikirjan henkilöille, jotka ovat vastuussa hankkeista joilla tähdätään suomalaisyritysten suorituskyvyn kehittämiseen lähitulevaisuudessa. Lisäksi työ tarjoaa kattavan tietopaketin kaikille niille, jotka ovat kiinnostuneita design-ajattelutavasta sekä Kiinan kehityksestä ja markkinoista.</p> <p>Työn omaperäisyys ja arvo - Työ haastaa perinteisen liiketoiminta-ajattelun ja sen kokoama Kiinan tulevaisuuden markkina-analyysi yhdistettynä design-ajattelutapaan on uudenlainen lähestymistapa tarkastella suomalaisyritysten mahdollisia kehitysmahdollisuuksia. Työssä myös korostetaan asiakkaan roolia osana koko liiketoiminnan kehittämistä ja tämän näkökulman avulla on mahdollista luoda uudenlaisia kasvustrategioita sekä hyötyä niistä taloudellisesti.</p>		
Avainsanat: Tulevaisuuden skenaariot, Kiina 2020, Design-tietotaito, Liiketoiminnan kehittäminen, Suomalaisyritysten kasvumahdollisuudet, Liiketoiminnan strategiat		

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This master's thesis has been written as part of a double degree Master program between the Aalto University School of Science and the Tongji University School of Economics and Management. The thesis will be evaluated at both universities under the similar title even though the appearance and the content of the thesis will vary in each university due to different regulations and guidelines. The nature of this thesis is more like a consulting paper and the main purpose of the thesis is to increase knowledge, especially within the ones who don't have great awareness of Chinese development and markets, and highlight the significant opportunities that Chinese market could provide in the future. I hope that this thesis gives a spark to rethink the development strategies inside the Finnish companies and encourages conducting more specific research on the ways to enter Chinese markets. I want to thank Foundation for Economic Education (Liikesivistysrahasto) for supporting my process financially, my thesis supervisor and instructors for sharing professional advises and all the interviewees and friends who have helped me to complete my thesis.

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1 Introduction

The background and significance of the thesis

As widely known, China has gone through a rocket like development during the last decades and currently its market size and importance has grown to be very significant from global perspective. In addition, if China continues to grow as expected, it will also become the largest economy in the world during the coming years. However, the rapid development affects not only the structure of Chinese economy but also the characterization of being only a cheap labour intensive country. China is becoming more alike as its western counterparts with high purchasing power and living standards. In other words this means various new business possibilities and paths to generate growth also to non-Chinese companies.

The thesis is based on the belief that future markets in China could provide successful opportunities for Finnish companies. Currently Finnish economy struggles with situation where the uplifting drivers are more than welcome. To speed up the growth in Finland, Finnish companies should seek new business opportunities especially from emerging markets, like China, where the growth prospects are the greatest. It could be argued that Finns don't have such a clear image of the underlying opportunities in Chinese markets but the purpose of the thesis is to overcome the stated issue. The better understanding and general knowledge of China's future markets could help Finnish companies to discover their overseas potential and encourage them to spot new possibilities, which might boost their current business operations. In addition, to succeed in today's and future's tense markets, companies need to prepare themselves with broad knowledge and capability to satisfy their consumers. Since design thinking is known as a philosophy, which starts from understanding the true needs and desires of consumers, it was chosen as the key philosophy to support the study. Another reason why design knowledge and competence was considered; is the assumption that design enhances opportunities to reach better rankings in crude competition.

The purpose and the aim of the thesis

This thesis is meant to be a useful overview, which answers questions of how the Chinese economy has developed in the last decade and how it will more likely develop in the future. The thesis will use exploratory research methods in its aim to answer the stated questions and the data used in the thesis is

gathered from several sources, mainly through different Internet platforms, and typical datasets include various researches, reports and news related to topic. In addition, the thesis explains the essence of design and highlights the tools, especially from the point of view of a Finnish company, by how to succeed in tense competition in future China. Despite the fact that the thesis provides a holistic set of information, which is beneficial to various stakeholders, the ideal audience for the thesis is the Finnish companies and entrepreneurs, who consider China as a potential environment to expand their business operations. Furthermore, the thesis also aims to reach a win-win situation where Chinese and Finnish entities could benefit by learning from each other as well as strengthen their cooperation. For Finns and especially for Finnish companies the information about future prospects is probably most valid whereas for Chinese the described cooperation possibilities with Finns could provide the most valuable insights to perform better in their domestic competition.

The structure of the thesis

The thesis is divided into seven main parts, which are presented after the introduction and the research methodology sections. The first part starts by describing the background of current Sino-Finnish trade and by raising a question, why Finnish companies should search growth opportunities from China. After Finland's existing trade with China and proposals for future actions are introduced, the next part – design approach framework – is presented. The purpose of this part is to focus on the fundamentals of design knowledge and compare the main differences between the ordinary business thinking and the design thinking.

Then the thesis moves on to its core part where it presents China's future markets by forecasting the development until the year 2020. The future market part focuses especially on three smaller sub-branches and it provides a closer look into China's economic development, nature of the market and prospects of future consumers. The topics in this third part are studied through micro and macro level perspectives and the aim is to paint a holistic picture of possible setups of future markets in China. The fourth part of the thesis is presentation of different tools, mind-sets and design driven models that companies should ponder before considering an entry strategy into Chinese markets. In this part, the theoretical design framework is also explained by using two case studies, successful domestic and foreign company in Chinese markets, which then will provide more empirical evidence about the advantage of using design knowledge as a tool of success.

The fifth part of the thesis focuses on two in-depth interviews, which highlight what Finnish companies should bear in mind while they are considering business ventures in China. In the sixth part, results from the ten additional interviews are analysed with concentrating on strategic perspectives and the aim is to find more empirical evidence to support the statements given during the two-in-depth interviews. All the interviewees, in the first and second round of interviews, are Finnish expatriates who have a long professional history in China and strong expertise related to issues of Finnish businesses in China. The final part of the thesis is left for conclusions of the study and summary of the major findings and future recommendations.

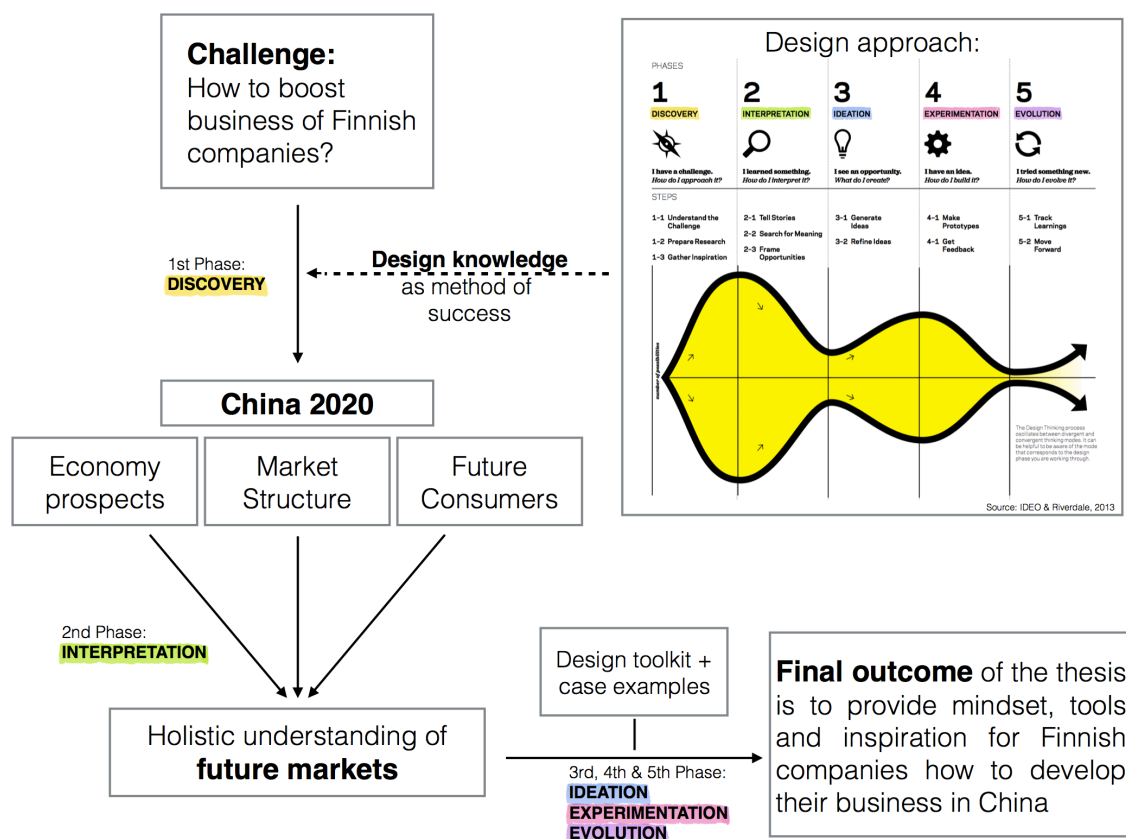


Figure 1. Structure of thesis

2 Research methodology

Research questions and objectives

The idea behind the thesis is to find an answer for the fundamental question: Would the future markets in China provide remarkable business opportunities for Finns and why Finns should consider the design knowledge while planning strategies to Chinese markets? The roots for this question came from the preliminary literature research, which was conducted during December 2013. The preliminary research pointed out the information gap of Chinese market analyses, which combines elements from both, future prospects and design knowledge, within a same study and thus the stated question was selected to represent the theme of the research. However, since the fundamental question is very broad and it enables several ways of conducting the answers, it was decided that the thesis would focus on three more specific and focused research questions, which have been build upon the fundamental idea.

First, what are the key elements that have controlled China's growth in past 10 years and what are the elements, which will most likely steer the development of China's markets and economy in the future? The future prospects will also be narrowed down and the scope for forecasts and predictions would be limited to year 2020 since estimating the possible events in longer run wouldn't serve the purpose due the too high level of uncertainty and lack of applicable research material. The objective of the first question is to summarize the main issues behind the past development of Chinese economy and highlight the major drivers that will influence the future progress of China. In addition, the secondary objective is to gain better understanding about China's growth and create an image of potential areas where to focus in the future.

Secondly, how to describe the future Chinese consumers and their nature? The second question is more open and the answers are more food for thoughts rather than accurate descriptions since the behavior and preferences of future consumers is impossible to forecast perfectly. The purpose is to serve general information about customer segments, their preferences and areas where they are located.

Thirdly, what is the design knowledge and why it should be considered as a way of thinking while preparing business operations or strategies? The third question aims to describe the fundamentals of design knowledge and point out the

practical implications of it, which are considered to be very beneficial in various business environments.

Research design and context

The research was designed during January 2014, and the actual research phase took place between an intensive five-month period, from February 2014 to June 2014. The research was divided into different phases, starting from the data collection and acknowledging the research topic issues between February and April. During May the gathered data was analyzed and the first comprehensive draft out of the thesis was completed. Between May and June all the interviews and commentary rounds for the thesis were carried out and the final data collection was completed. The second all-inclusive draft out of the thesis was completed at the end of June and the final version of the thesis was available in September alongside with the beginning of academic year 2014-2015. The thesis has been published and submitted for evaluation in two different versions; the present Aalto University's version with complete content and the Tongji University's version with narrower content due to different thesis regulations and guidelines. This final version of the thesis was officially published on May 2015 due the bureaucracy related to the graduation process of the Aalto University.

The whole research process took place in Shanghai and it was part of a double degree master program between Aalto University from Finland and Tongji University from China. The thesis was supervised by professors from both universities and instructed by the professors from Aalto University. The research was conducted individually without steering or financial pressure from external entities. The theoretical purpose of conducting this research was to share a contribution to knowledge by gathering previously available information and generating new knowledge with help of the extensive and innovative research methodologies. On top of the theoretical outcomes, the research aims also to provide information, which is beneficial in practice to various stakeholders.

Data and methods

This research uses exploratory research methodology as a core methodology through out the whole research process. As common to exploratory research, this research also relies on secondary research while gathering data for the study. The data set for the research was collected mainly from the Internet

sources in addition to twelve in-depth interviews, which were divided into two different interview rounds. The typical Internet sources were academic publications, reports and researches made by global institutions or consultancy companies and topic related news from various trusted portals (See Appendix 1). The first in-depth interview round relied on qualitative research framework and the purpose of the structured interviews was to gather empirical findings to support the theoretical part of the study. The interviewed persons were Timo Laurila (Executive Director of Finnish Business Council Shanghai) and Oskar Helling (Founding Partner and Chief Analyst of Asia8Group). The interviews based on three main themes; Historical and Future perspectives of Finnish companies operating in China and the Finns relation to Chinese customers (See Appendix 3). The second in-depth interview round focused more on quantitative research framework and the purpose of the second interview round was to gain more empirical evidences and ponder around the strategic possibilities of Finnish companies. The second round included ten individual interviews with ten different Finns who are currently working in China in dissimilar companies and positions (See Appendix 2).

The research relies on design driven approach as a key framework to organize, guide and structure the study. The design driven approach is explained in detail in the chapter ‘Design driven approach to explore future markets’ but the next elaborations summarizes briefly the main idea behind the framework. In design driven projects, everything starts with a challenge and the challenge of this research is to find growth opportunities for Finnish companies from future markets in China. Once the challenge is identified and described, the next step is to conduct a holistic overlook and broad research about the topic. This thesis focuses especially on this phase and it explores issues around the topic. After the first discovery phase is conducted, the second phase is to interpret and learn from the outcomes of the first phase. Then on the following three phases concentrate on ideation, experimentation of created ideas and finally evolution or iteration of the generated ideas. This research won’t go into details of last three phases but it provides the tools and mind-sets that can be used to perform the last phases individually. The conclusions of the research are also based on the similar findings that would be represented in the second phase of the design driven framework.

The advantage of using the design driven framework is the ability to focus on various aspects and produce different insights, which paint a broad picture of the existing phenomena. The idea is not to struggle with too detailed analysis but to share a general overlook to the stated problem and provide a possible sparkle to start more specified analysis afterward. Compared to other future research methodologies, the design driven approach enables also the

consideration of overlapping micro and macro level events and effects. For example in PEST analysis, which focuses on macro level future analysis by assembling information about Political, Economical, Socio-cultural and Technological changes of the inspected market, the drawback is that the micro level effects are left out of the analysis. Vice versa in the micro level future analysis, for example in the famous Porter's five forces analysis, where bargain power of buyers and suppliers, threats of new entrants and substitutes, as well as the rivalry among the existing competitors are analyzed, the focus is on industry itself and the macro level events are left out of the picture. However, these both methodologies provide a proper framework to follow up on further studies if there is a need for more detailed analysis.

Data analysis

Because the purpose of the exploratory research is not to formulate precise answers for the stated questions, the analytical part, or the conclusion in other words, focus on providing most possible and realistic answers to stated research questions as well as it assists to gain familiarity with the expressed phenomenon. In other words, the collected secondary data and interviews were analyzed by using the design philosophy and the aim of the analysis is to summarize the most outstanding and remarkable issues found during the research. Another purpose of the analysis was to provide information pieces and answers, which helps in later individual processes such as aims to frame future opportunities or seeks to gather inspiration for further business development. It is also acknowledged that given answers can be misleading and their validity might change on a longer time perspective but even though if the research wouldn't provide perfectly accurate information, it still serves value to its readers. When understanding what factors have been the driving forces behind each research question, it is easier to adjust the future plans, strategies or forecasts to fit the latest changes in upcoming years. In addition, this research works as a preliminary stage analysis after which it is easier to generate formal hypothesis and operate a more detailed study.

3 Finnish challenge

Existing difficulties and possible drivers of growth

To generate overall economic growth in Finland, it is needed that Finnish companies put more efforts on international expansion. In addition, companies should also increase other exploration activities on how to develop their business by using new sources, which are located abroad. However, due to limited knowledge and experience, many Finnish companies lack the capabilities to enter in emerging markets, where the growth opportunities are the greatest. Another decelerating factor is the absence of sufficient amount of capital to commercialize innovations even though the R&D know-how is among the top of the world. Finland is also not very well known outside its borders, which makes it difficult to enter new markets because foreign consumers cannot associate Finnish brands to certain culture like they would associate brands from other countries. For example French companies can generate positive images to foreign consumers since consumers remember the quality wines from France, and with similar logic, Germans can rely on pleasant feelings from high-performance cars and Japanese companies can build trust within the new consumers since Japan is known for reliable consumer electronics. The rule of the marketing is that if buyers cannot remember the brand, it is very unlikely that they will buy the products and thus Finland and Finnish companies have to enhance their brand images so that they can gain advantage in the future marketplace. (Jullens et. al., 2013; Kalb, 2014)

China and its future markets can provide excellent opportunity for Finnish entities to overcome the stated challenges. Solutions for issues, such as limited financial capabilities of Finns, could also be found from Sino-Finnish partnerships, which can be fruitful for both parties since China and Chinese entities could also gain benefits from co-operations with Finns. In addition, it can be pointed out that Chinese companies have an opportune time to invest abroad since Chinese government encourages companies in their international pursuits and appreciation of Yuan will increase companies' purchasing power. From Finnish point of view this means better chance to acquire more capital for commercialization projects and better prospects to find partners for business co-operations. Chinese partners, such as specific agent companies which lower market entry risks and help in market entry processes into China, also offer Finnish companies easier chance to expand their business with better secure. From a Chinese point of view, co-ventures with Finnish entities could help Chinese to improve their knowledge in areas where Finns are expert. Gaining

more knowledge is an important aspect since Chinese have a need to improve their know-how and R&D capabilities because they aim to upgrade their status from the middle-income country to the high-income country. (Jullens et. al., 2013; Kosonen et. al., 2013; MTV3, 2013)

Furthermore, when Finland's international business presence is compared to other small and open economies, like Holland, Sweden and Switzerland (Jullens et. al., 2013, p.2), it is easy to spot the absence of Finnish companies in the emerging markets such as China. It is true that large Finnish companies in industries such as forestry, telecommunications, and industrial equipment have already made important forays into China, but still the lacking presence of Finnish SMEs in China is a concern, which should be pointed out especially because the world's economic gravity is turning from West to East and thus some of latest events, like the Ukrainian crisis, has caused second thoughts on how heavily Finland should rely in the future on its exports to countries that play a great role in the present trade setup. In addition, for a small country like Finland, it is also important to seek growth opportunities abroad since the domestic demand isn't high enough to justify the large capital investments, which are required for bringing new innovations into markets. In this perspective the achievable opportunities with Chinese capital and cooperation, plus the access to target a large customer base that covers costs of launching the new products, makes China a very potential country to collaborate with. (Jullens et. al., 2013)

In terms of awareness, Finland and Finnish companies have currently a tremendous opportunity to build their brand recognition from the very beginning, which will be a valuable asset in the competition against other countries. Since the present brand awareness isn't on high-level, it is also easier to generate desired brand image within the Chinese consumers, who will have a greater role and increasing purchasing power in future markets. During the state visit to China in April 2013, President of Finland, Sauli Niinistö, commented that: *"China has many wishes to develop the cooperation with Finland. In Finland, China is particularly interested in cleantech, innovation, and urbanization-related know-how and technology"* (MTV3; 2013, 9 Apr). The comment sets a proper starting point for Finnish brand development because if Finland achieves a strong image and reputation by being a country of green innovations in future, it will fit very well into green values, which importance and appreciation is constantly rising within Chinese citizen. China's current pollution and environmental problems are making general public really frustrated and by helping and supporting to overcome the stated problems, Finland has as well a really strong base to build its ecological brand in China. In addition, Finland's high-class education system and capability to be

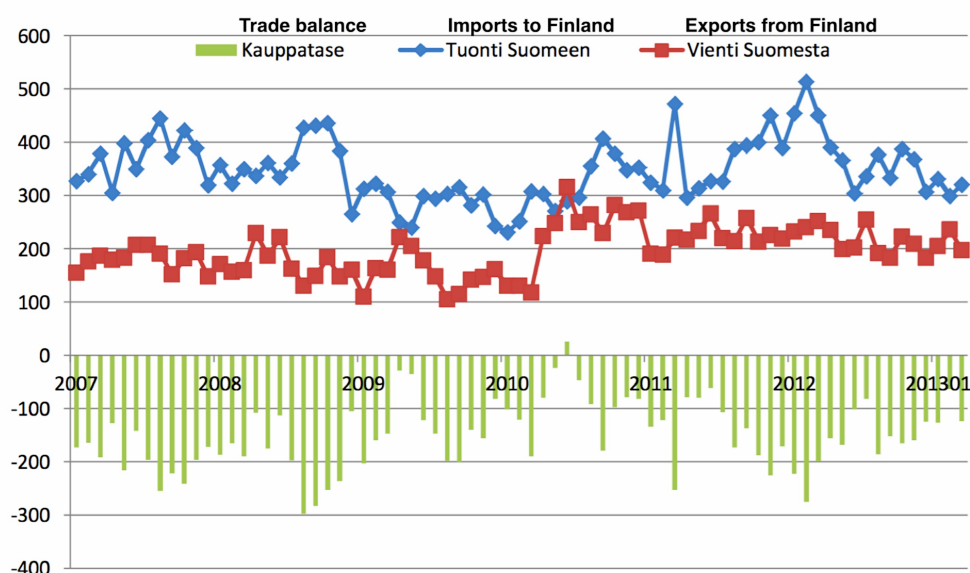
innovative and inventive should also be pointed out because proper education is also highly appreciated within the Chinese culture. (Kalb, 2014; MTV3, 2013)

Trade characteristics

China was the fifth biggest trading partner of Finland in 2013 and the overall trade between the countries has been rather steady during the recent years (See figure 2). After 2010, Finnish exports in monthly basis have been within 200 and 300 million euros and Chinese imports have been within 300 and 400 million euros, despite the few monthly spikes in 2011 and 2012.

Finland's trade with China in monthly basis, million euros.

Kuvio 19. Suomen kauppa Kiinan kanssa kuukausitasolla, milj. euroa



Lähde: Tullihallitus (2013)

Source: Finnish Board of Customs (2013)

Figure 2. Finland's trade with China in monthly basis. Source: Kosonen et. al., 2013.

Despite the steady trade, Finland has been evaluated to perform worse than other western countries since Finnish exports to China are claimed to focus on too narrow range of merchandise (See figures 3 & 4). The major part of trade has been large enterprises B2B trade, mainly with industrial products, and the share of investment commodities and intermediate products in total trade is clearly higher than the rates with other countries. However, it should still be acknowledged that a part of Finnish trade doesn't appear in export records since goods made and sold inside Chinese borders don't have an affect on the records, even though the goods would be designed and produced by Finnish companies. The structure of Finnish exports has already changed largely after

the global financial crisis (See figure 3). The share of machines and devices has decreased from almost 70% to 44% during the years of 2008 and 2012 and simultaneously the share of raw materials has tripled to near 40% share during the same period. Despite the criticism, from B2B point of view, China's rapid urbanization gives positive prospects to several companies. For example Finnish elevator and escalator company, KONE, has found great opportunities from Chinese markets due to the high construction rates. However, Finland should still pay more attention to commercial merchandises since as said the China's economical growth will rely more on private consumption in the future. (Kosonen et. al., 2013; Tulli / Finnish Customs, 2013)

Finland's exports to China in product categories, 2002-2012, million euros.

Kuvio 20. Suomen vienti Kiinaan tuoteryhmittäin, 2002–2012, milj. EUR

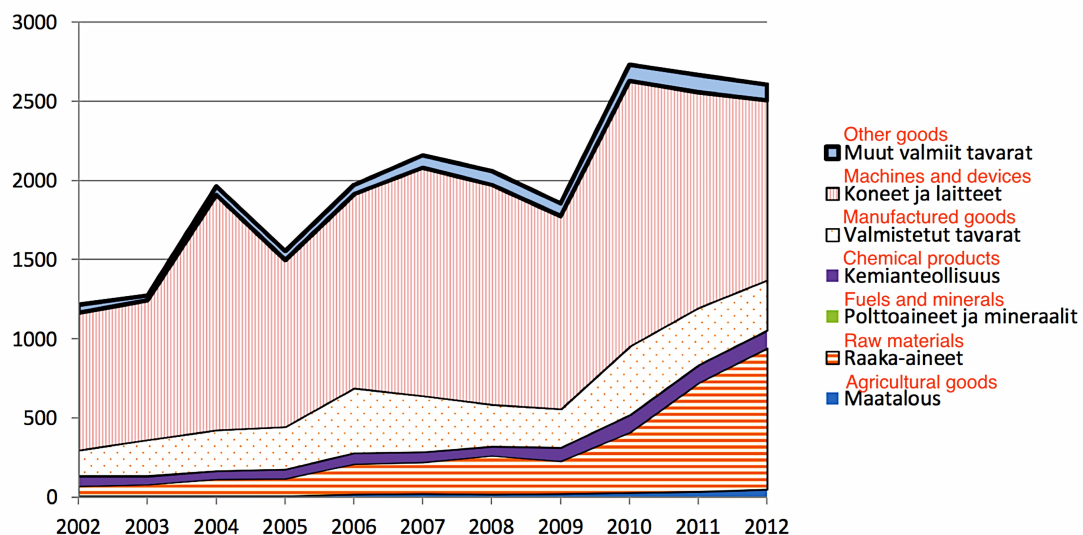
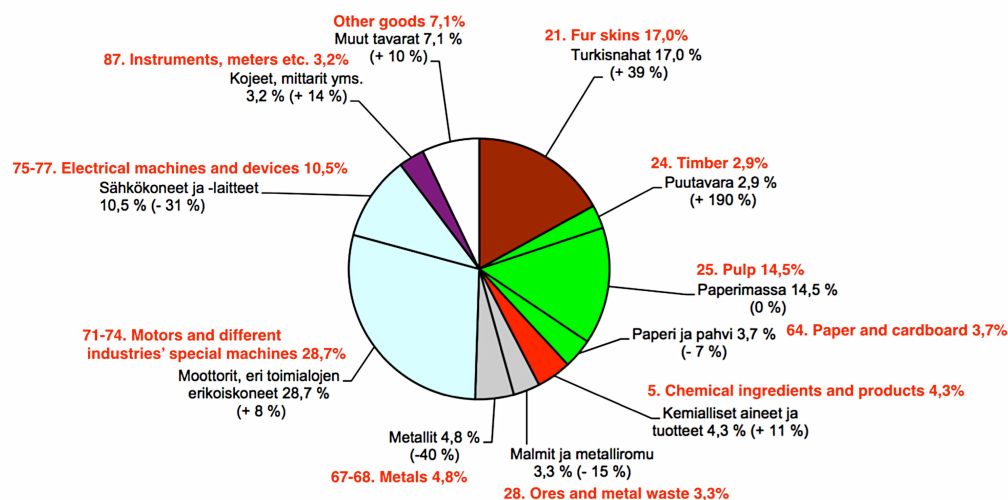


Figure 3. Finland's exports to China in product categories 1. Source: Kosonen et. al., 2013.

Finland's exports to China in product categories, 2013.

Kuvio 6. Vienti Kiinaan tavararyhmittäin v. 2013 (1-7)



Source: Finnish Customs (2013)

Taulukko 2. Vienti Kiinaan; tärkeimmät tavararyhmät

SITC-tavararyhmä	2012 Milj. e	Share % Osuus %	Change % Muutos %	2013(1-7) Milj. e	Share % Osuus %	Change % Muutos %
21 Turkisnahat	282	10,8	63	278	17,0	39
24 Puutavara	33	1,3	39	48	2,9	190
25 Paperimassa	397	15,2	15	238	14,5	0
28 Malmit ja metalliromu	125	4,8	29	54	3,3	-15
5 Kemialliset aineet ja tuotteet	111	4,3	0	70	4,3	11
64 Paperi ja pahvi	110	4,2	4	61	3,7	-7
67-68 Metallit	176	6,7	-19	78	4,8	-40
71-74 Moottorit, eri toimialojen erikoiskoneet	715	27,4	-23	471	28,7	8
75-77 Sähkökoneet ja -laitteet	371	14,2	-10	172	10,5	-31
87 Kojeeet, mittarit yms.	81	3,1	-11	53	3,2	14
Muut tavarat	206	7,9	26	117	7,1	10
Yhteensä	2 607	100,0	-2	1 640	100,0	1

Figure 4. Finland's exports to China in product categories 2. Source: Tulli / Finnish Customs, 2013.

Growing potential of the commercial sector

The importance of commercial sector is still rather small for Chinese economy since it was only 9,7% of China's GDP in 2012 – compared for example India, where the rate was 17% in 2013. However, because the Chinese consumers purchasing power is expected to increase heavily in coming years, the importance of the commercial sector is going to rocket in future. The 14% annual growth rate in China's commercial sector's turnover in 2012 also projects the same growth trend. Furthermore, Chinese government expects as well that private consumption is the new driver of China's economic development and government has announced several plans to increase the consumption of Chinese citizen. Another important insight related to future trade in China is that the share of e-commerce will grow from current 6% to 16% by 2020 and simultaneously making China the biggest online market in the world. In coming

years China's economic landscape will also revolutionize due to the exponential growth of Internet users. Quotes by Yu (2014, p.2): *"According to the China Internet Network Information Center (CNNIC), a government-backed industry administration body, Internet users in China reached 618 million by the end of 2013. Among them, 500 million connect to the Web using smartphones, 80 million more than the previous year, a 16 percent increase. A research report released in mid-January by iResearch, a leading Chinese IT consultancy, stated that the number of Chinese mobile Internet users would surpass the number of traditional Internet users in 2017"* and *"With unprecedented penetration of mobile Internet use connecting the online and offline world, there has been much discussion about the revolutionary impact of the mobile Internet, not only on the traditional Internet industry, but on many traditional industries, and the economic structure as a whole"* highlight well the tremendous online possibilities that Finnish companies should pay a special attention to. (Kosonen et. al., 2013; Yu, 2014)

To highlight a few examples of commercial merchandise, which will have a growing demand in China's future markets, it could be pointed out that the popularity of foreign food is constantly increasing in China since consumers trust on China's domestic food is lacking because of the frequently occurring food scandals. Potential areas to grow in food sector are for example the dairy and fish products since value of Chinese dairy markets is expected to double by 2016. The prospects of fish products are as well very optimistic since the new food safety agreement between Finland and China opens markets for Finnish fish producers and in addition, the Chinese middle class is very keen on purchasing farmed fish. Finnish utility goods have as well a great potential because of the Chinese respect towards high quality products is increasing. In addition of tangible products, the intangible sector provides also great opportunities. For example the increasing amount of smartphones and growing demand for mobile entertainment projects huge possibilities for the booming gaming industry in Finland since companies such as Rovio and Supercell has already proved that Finnish game makers can success globally. Growing commercial market indicates as well growing need for intangible matters such as service design, management and consultancy. (Atsmon et. al., 2012; Kosonen et. al., 2013)

4 Design driven approach to explore future markets

Fundamentals of design knowledge

The very first question that typically arises is; what is meant with design approach, design thinking or design knowledge? The term design is so broad that it is rather hard to define the exact meaning of it. However, in this thesis the term design and specifically design knowledge and approaches stand for a mind-set, which gathers elements mainly from design thinking. Quotes from Serrat (2010, p.2 & 3), explain well the fundamentals: *“Herbert Simon defined design as the changing of existing conditions into preferred ones. Design thinking, then, is about using the sensibilities and methodologies that characterize designers to create new ideas, new alternatives, new choices, and new viabilities that satisfy stakeholder desires. It is fundamentally abductive, even if designers still induce patterns and deduce answers”* and *“Design thinking revolves around three key phases: inspiration, ideation, and implementation. During these phases, problems are framed, questions—also about questions—are asked, ideas are generated, and answers are obtained. The phases are not linear; they can take place concurrently and can also be repeated to build up ideas along the continuum of innovation.”*

Many times design is also related to aesthetic aspects alone but actually design fundamentals roots in way deeper than just a beauty of a surface. Tim Brown (2008, p. 7) corrects the false belief by saying: *“I argued earlier that design thinking can lead to innovation that goes beyond aesthetics, but that doesn’t mean that form and aesthetics are unimportant. Great design satisfies both our needs and our desires. Often the emotional connection to a product or an image is what engages us in the first place. Time and again we see successful products that were not necessarily the first to market but were the first to appeal to us emotionally and functionally. In other words, they do the job and we love them”*. To summarize the core of design knowledge in this thesis, it can be said that the focus is in open-minded approaches, which acknowledge trial and error mentality and the importance of human-centred ways of exploring the new business opportunities. (Brown, 2008a; Serrat, 2010)

Framework to follow

According to IDEO, the design process can be divided into five phases: Discovery, Interpretation, Ideation, Experimentation and Evolution (See Figure 5.). The idea of the process is to explore and discover challenges in the first phase and expose the possibilities. This thesis focuses particularly on the first phase. It collects holistic understanding of China's current and upcoming economic environment and attempts to illustrate the opportunities that the future will provide. After achieving inspiration from the first phase, the second phase of the design process summarizes the learning outcomes and narrows down the biggest opportunities. The third phase is for generating and refining ideas, which will be tested in the fourth phase by prototyping and gathering feedback from various sources. The last phase of the process is called the evolution phase and it questions what the process has provided to its followers. The core of the last phase is to fine-tune and iterate ideas once more or even start the whole process from the beginning if the idea doesn't seem to be worth trying. (IDEO & Riverdale, 2013)

Design approach differs from typical business approach by not focusing only on analysis, calculations and forecasts of possible markets (See figure 6). Instead, design approach steps into an area of uncertainty, where not everything can be measured or calculated. The core of the design thinking in business is to put the main emphasis on people and use human-centred methods and tools to develop products and services since human beings finally purchase the products or services, not market segments or 'demand', which are commonly used terms in business scene. Brown (2008a, p.6) also highlighted that: *"Many of the world's most successful brands create breakthrough ideas that are inspired by a deep understanding of consumers' lives and use the principles of design to innovate and build value. Sometimes innovation has to account for vast differences in cultural and socio-economic conditions. In such cases design thinking can suggest creative alternatives to the assumptions made in developed societies"*. In addition the fact that design approach helps in the process of developing new revolutionary products and services, the quote also underlines the great possibility that Finnish companies could achieve by targeting Chinese markets. Because Finnish culture differs heavily from Chinese, it also provides a valuable asset for Finns since they can observe Chinese consumers from alternative and objective perspectives, which then enables and enhances possibility to find ground-breaking ideas how to develop their business. (Brown, 2008a; Liedtka & Ogilvie, 2011)

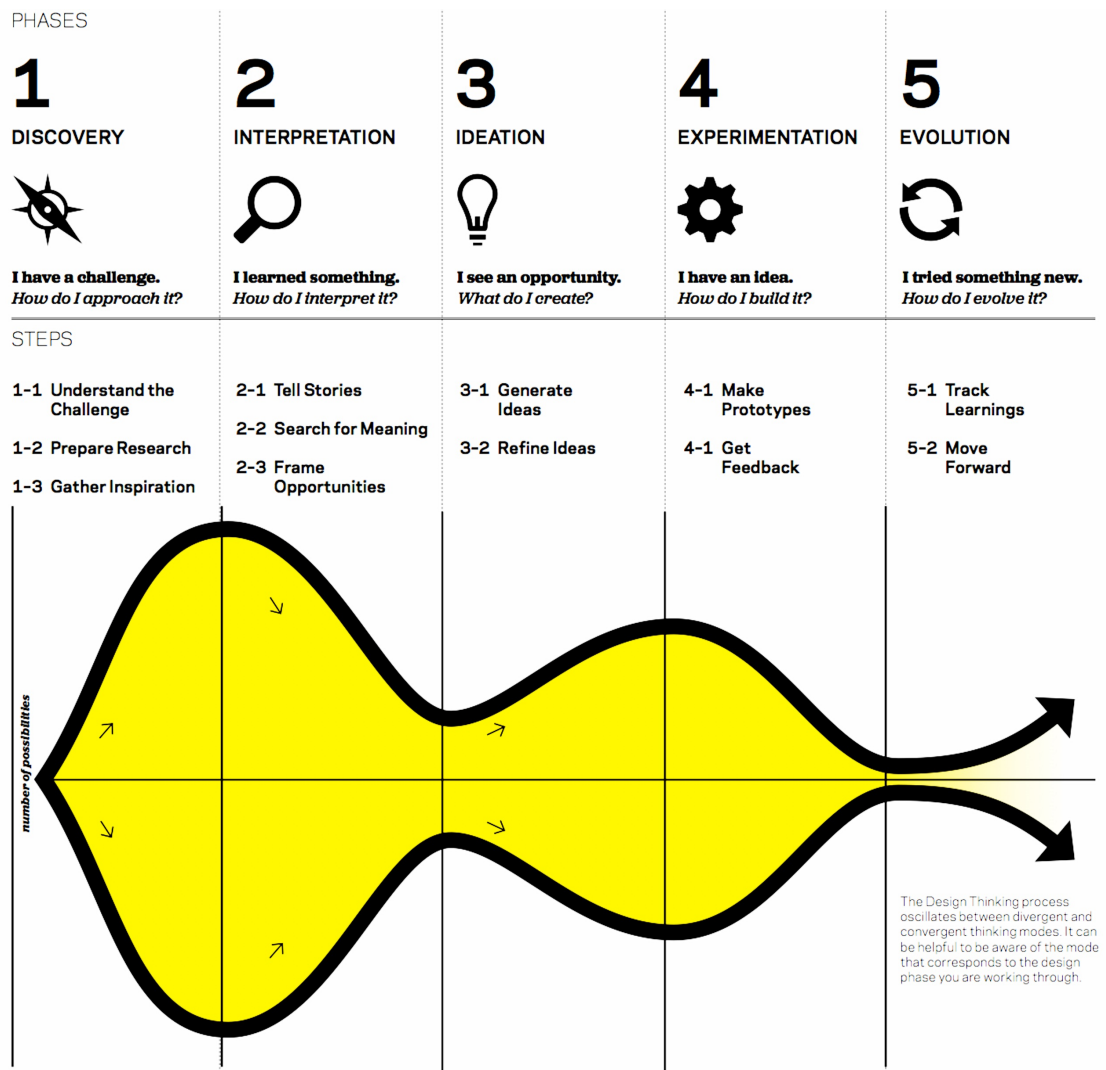


Figure 5. Design Process. Source: IDEO & Riverdale, 2013.

	BUSINESS	DESIGN
Underlying Assumptions	Rationality, Objectivity; Reality as fixed and quantifiable	Subjective experience; Reality as socially constructed
Method	Analysis aimed at proving one "best" answer	Experimentation aimed at iterating toward a "better" answer
Process	Planning	Doing
Decision Drivers	Logic Numeric models	Emotional insight, Experiential models
Values	Pursuit of control and stability; Discomfort with uncertainty	Pursuit of novelty; Dislike of status quo
Levels of Focus	Abstract or particular	Movement between abstract and particular

Figure 6. Difference of business and design approaches. Source: Liedtka & Ogilvie, 2011, p. 11.

However, since there are endless amount of variations and case specific settings of how to describe needs and desires of Chinese consumers, the thesis doesn't aim to provide a ready template that every company could use and success in future markets in China. Every company should conduct their own consumer study while developing products and services for Chinese markets because then they can focus on their business area in the most precise manner and reveal the unique source of demand for their services and products. As said, the idea of the thesis is to help companies to find opportunities by gathering holistic understanding of future markets in China, and to reach the stated goal; thesis uses business and design thinking methods in parallel. Business metrics and the underlying mind-set of using design approach hopefully leads to disclosures of future possibilities. Supporting comment from Liedtka & Ogilvie (2011, p. 29) *"To generate truly creative ideas, it is crucial to start with possibilities. Often in business, in our attempts to be 'practical,' we start with constraints. This is deadly to breakthrough thinking. If we start by accepting all the things that don't allow us to do something better, our designs for tomorrow will inevitably look a lot like those for today. Our only hope for real creativity is to ignore some key constraints in order to identify a new set of possibilities"* also summarizes well the stated ideology and way of thinking. (Brown, 2008a; Liedtka & Ogilvie, 2011)

5 History of China's economic growth and future prospects

Roots of the enormous development

Before forecasting the future progress with design framework in mind, it is highly recommended to acknowledge the recent development and the reasons behind China's economic growth since it provides bedrock of understanding the current situation as well as it creates the proper mind-set to analyse the future scenarios. As widely known, the rise of China has been impressive. After the beginning of market reforms in 1978, China has moved from a centrally planned society to a market based economy and it has experienced a rapid economic and social development. 680 million people have been lifted out of poverty – thanks to about 10% average growth rates of GDP during the past years. China has also become the second largest economy in the world even though it is still a developing country since its market reforms are not completed and its per capita income is still a fraction of what advanced countries have. On the other hand, despite the enormous and record-breaking growth, the occurred development has as well caused several serious challenges to the Chinese nation. Challenges such as; high inequality, rapid urbanization, confronts in environmental sustainability, external imbalances, aging population plus the internal migration of labour, will definitely provide complex issues to solve and it is interesting to witness how China will overcome these challenges in its future. (The World Bank, 2014; Wharton University of Pennsylvania 2013)

The following subchapters will take a closer look at the latest blueprints on how China has managed its development during the last decade. The subchapters are aimed to enlighten main issues of China's economical development by explaining major influential aspects such as the role of the Five-Year Programs to Chinese economy. The subchapters focus also on the key drivers and challenges, for example the ones stated in the latest Third Plenum, which steers the upcoming development. After the historical side of the development is discussed, the next chapter will pay more attention to China's future challenges and describe the nature of challenges in more detail.

Role of The Five-Year Plans and Programs

Starting from the year 1953, the People's Republic of China (PRC) has executed a series of Five-Year Plans, which objects for national development by

setting the blueprint and targets of upcoming development steps related to social and economic growth plus the industrial planning in key sectors and regions. The blueprints map out China's future goals via guidelines, policy frameworks, and targets for policy-makers at all levels of government. The model has been adopted from the Soviet Union, where a similar central planning approach directed the development of the nation. (APCO Worldwide, 2010; Fan, 2006; Ash et. al., 2012)

Five-Year Plans have been carried out actively during the years and only once has it not been implemented. The disaster of the Great Leap Forward required economic adjustments between 1963-1965, which the plan didn't take into account. This underlines a strong position of the plans since the plans were also implemented during another significant period of Chinese history – during the Cultural Revolution 1966-1976 – when a lot of dramatic new political imaginary were created but surprisingly it didn't affect so heavily on China's economic development and the plans maintained their importance. All in all since China is a country where the state has kept a powerful control over much of the economy, the Five-Year Plans have been major indicators of directions and changes in development philosophy. However, in early 2000s the terminology of the plans were changed and the 10th Five-Year Plan (2001-2005) was the latest blueprint described as a plan. Starting from the year 2006, the terminology changed to less prescriptive and the 11th Five-Year Program was the first five-year blueprint with a term 'program'. Despite the stated change, still many of the reviewed articles and reports have kept on using the term 'plan'. (Ash et. al., 2012; Fan, 2006; Naughton, 2007)

The political process behind the Five-Year Programs is more foreseeable than surprising because it projects the legacy of a command economy as well as the influence of many senior leaders behind the decisions. The process along the Five-Year Programs focus on creating steady and regulating environment that helps to meet the long-term development goals. The Five-Year Programs act also as an important tool for the government in seeks of achieving the national economic and social development milestones. (APCO Worldwide, 2010)

Despite the fact that many people consider the Five-Year Programs to be a single document, it is a much more complex web of Chinese policy-making, which contain previously implemented regional and long-term development plans and hundreds of targeted policy initiatives, all of which undertake constant review and revision over the course of the five-year cycle. Another false belief is that process is seen rather chaotic even though the process of Five-Year Programs is more and more standardized, open and subject to significant oversight within the wider bureaucracy. (APCO Worldwide, 2010)

However, it still needs to be taken into consideration that effective implementation of the Five-Year Program objectives stays difficult despite the more efficient formation procedures because it has been identified that local government officials either slavishly follow program targets or not follow them at all. For example, during the 11th Five-Year Program period (2006-2010) the PRC's target of annual GDP growth rate was routinely surpassed, while energy intensity targets led to intentional drop in voltage in an electrical power supply systems in numerous cities in late 2010 because aimed targets wasn't met. (APCO Worldwide, 2010)

Generally speaking, the topic of local governments loyalty to the PRC's Central Government is interesting since a common misbelief exists in western countries that the guidelines and actions of Chinese Communist Party (CCP) remain the same at all executive levels of the nation. Westerners' belief that the orders of president Xi Jinping are followed through all governmental levels – as they are – but the way of how the orders are followed or executed may vary severely. The reasons for this phenomenon can be found from the *tiao-kuai* system, which refers to the Chinese two-dimensional power structure model. In other words, the *tiao-kuai* system describes and organizes command-chain of the state where *tiao* refers to vertical and *kuai* to horizontal power between the different administrative entities of state. (Nojonen, 2014)

China's hierarchical pyramid constructs of the Central government, which is on top of the pyramid. Under the Central government are 34 provincial-level administrative regions; under provincial regions are approximately 700 cities; over 2000 counties; about 100.000 townships and over a million villages. The similar organization structure that exists in the Central government, repeats in every level of the pyramid and therefore every level has its own governments, ministries and other organizations. However, the Chinese Communist Party normally controls the proceedings of lower levels. All the decisions, that the lower level officials propose, typically achieve a full support from the party if the decisions are linked to China's economical development. Therefore this governmental structure doesn't actually rely on parliamentarianism of National People's Congress (NPC), which is officially the national legislature of People's Republic of China. (Nojonen, 2014)

To enlighten more the stated power structure, it can be observed that governments at lower levels are simultaneously responsible for their own People's Congress as well as to the higher government levels. This means from a hierarchical point of view that provincial governments are at the equal level as the ministries of the Central Government and thus Central Government's ministries cannot give orders to provincial governments. The similar proceeding

repeats also in other levels and provincial ministries cannot give orders to municipalities and so on. Therefore higher entities, like Central Government's ministries, typically control their fields through vertical (*tiao*) command-chains, which then on can affect to lower levels decisions through the horizontal (*kuai*) command-chains. The occurred economical reforms, especially the fiscal reform in 1994, have remarkably influenced *tiao-kuai* system and as an outcome, the Central government's vertical (*tiao*) power has decreased while the horizontal (*kuai*) power of lower levels has increased. The stated change has also caused a negative side effect since it has increased the competition between the administrative entities. In addition, the current system doesn't really support the horizontal co-operation and therefore it is common that all entities focus only on generating their own profits. Despite the more loose control from the Central Government, the change in state's power structure has also been beneficial to whole nation since lower levels have used the changed setting to speed up their economical development, which then on has boosted China's GDP growth. (Nojonen, 2014)

Nevertheless, because the power of lower levels has increased and the main indicator that measures the performance of these levels is the success in economical development; numerous officials have used questionable approaches to speed up the economical development. Some approaches have also been against Central Governments orders, regulations and laws, and the sad examples of this phenomenon are China's severe environmental problems even though the environmental laws in China are one of the most rigorous of the world. Furthermore, with this basic knowledge in mind about China's power structure, it is easier to mirror the effects of Five-year programs to Chinese development and hence the next chapters will describe the key points of the latest Five-year programs. (Nojonen, 2014)

Key elements of the 11th Five-Year Program (2006-2010)

The 11th Five-Year Program has been described with terms "revolutionary," "a watershed," and "of turning point significance" because it was regarded as a significant policy shift for the Chinese government as it changed its focus from "growth at any cost" towards a more balanced and sustainable growth pattern, under the "harmonious society" and "scientific development concept" policy frameworks. However, the proposed Program sets only few quantitative targets and it has no exact industrial policies or programs. The program was more of an action plan for government, which was designed to guarantee that fast growth will be sustainable over the long term, and that the fruits of growth will be more equitably shared. It was said that now China's leaders were seriously

reconsidering their development priorities and strategies. (APCO Worldwide, 2010; Fan, 2006; Naughton, 2005)

Key points of the guidelines of the 11th Five-Year Program was stated in Chinese Government's web portal by Yangtze Yan (2006) with following bullet points:

- Major projects for new countryside in 2006-2010
- Key projects for revitalizing China's equipment manufacturing industry
- Major high-tech projects planned for 2006-2010
- China's key transport infrastructure projects for 2006-2010
- China to raise education expenditures to 4% of GDP

Behind these five guidelines were pursuits to lowering the gap between poor and wealthy, especially the China's rural-urban income gap that according to Fan's (2006, p. 714) paper: *"... is among the largest, if not the largest, in the world; and rural-urban inequality is the biggest component of overall inequality in Chinese society."* In addition, Fan (2006, p. 719) argues in her paper that: *"the Plan sets goals and makes broad recommendations but lacks specific guidelines about how to achieve and implement them"* and *"Unlike the 'getting rich' idea, which was fully backed by state investment and policy instruments, it is unclear whether and how much the state will involve itself in pursuing the 'common prosperity' goal."*

Nevertheless, Naughton (2005, p. 9) summaries in his paper that the Program has: *"... a rich and comprehensive vision of a sustainable development process in China, and a glimpse of the kind of governmental role that would be required by this development process. The vision is of a society that is more creative, more focused on human resource development, and treads with a lighter and more environmentally benign step."* In addition, Naughton also points out the difficulty that the Program contains because the Chinese government cannot realize its vision alone. However, the government can adopt a development strategy, which pushes the Chinese economy towards the proposed road. Furthermore, for achieving this effect, it is needed that the government supports market opening and integration, foster employment creation, and encourage broad-based economic growth. In addition, it is needed that the government diversifies energy sources, fosters conservation measures, and saves energy. In other words, the government has to find a convincing way on how to realize the several positive visions that the Program advocates. (Naughton, 2005)

Key elements of the 12th Five-Year Program (2011-2015)

Compared to the 11th Five-Year Program, the 12th Five-Year Program's main difference is to shift focus away from an export- and investment-led growth towards an approach, which relies on gaining more support from China's 1.3 billion consumers. Another major fact that needs to be acknowledged is that the 12th Five-Year Program took place in a significantly different internal and external environment than the 11th Program: the global financial crisis occurred during 2008-2010, property prices were rising and the risk of social instability was increasing. These were all remarkable issues, which effected the creation of the 12th Program. Especially the effects of the financial crisis made Chinese officials aware of the importance of forming a growth model that shifts away from the country's overreliance on investments and exports and towards consumption-led growth. Growing consumption would also aid the government to reach its goal of raising income and social-benefits in all levels of China's citizens. (APCO Worldwide, 2010; Roach, 2011)

KPMG China (2011, p. 2) summarizes the key points of the 12th Five-Year Program with the following bullet points:

- Develop China's western regions
- Protect the environment and improve energy efficiency
- Continue transitioning to an economy driven by domestic consumption instead of exports
- Improve the lives of Chinese citizens
- Develop seven priority industries, with the aim of increasing their GDP contributions from 2 % of GDP to 8 % by 2015:
 - Three sectors align with the theme of sustainable growth: energy savings and environmental protection; new energy; and clean energy vehicles
 - The other areas are consistent with China's ambition to move up the value chain: biotechnology; new materials; new IT and high-end manufacturing.

Beneath the bullet points lies also the program's higher role for services; a greater emphasis on improving living standards and narrowing income inequalities; plans to fight against global warming and reduce carbon intensity, including ambitious emission-reduction targets, a carbon tax, new indicators for pollutants and carbon-trading programs. All the stated plans are targeted to help China to move up in the value chain. (Hill & Socorro Gochoco-Bautista, 2013; Roach, 2011; Tang, 2011)

China's economic development during 11th and 12th Five-Year Program

China's development and modernization has been enormous during the past decades. Examples such as that China has managed to pull 680 million people out of poverty between 1980 and 2010, double-digit economic growth rates and the fact that China is the world's largest producer and exporter of manufactured goods (year 2013) gives strong support to mentioned statement. During the 11th and 12th Five-Year Program, China expanded its economy steadily by overtaking Germany in year 2007 and Japan in year 2010 and then on becoming the world's second-largest economy only the United States ahead. (Schellekens, 2013; Teather, 2010; Wharton University of Pennsylvania 2013)

The positive development has also enabled to meet and overcome the economic targets that were stated in 11th Five-Year Program since the Program called for annual GDP growth of 7.5% but the actual average annual growth rate between 2006-2011 was around 11%. The statistics for 12th Five-Year Program are not yet available but the first signals to meet the targeted average annual growth rate of 7% are rather promising since GDP growth was 9,3% in 2011 and 7,8% in 2012. China's gross national income per capita (PPP) has also increased around 90%, from 4740\$ (2006) to 9040\$ (2012). (KPMG China, 2011; The World Bank 2013 & 2014)

Fast growth has also its drawbacks. Due to the rise of the Chinese income levels, China has started to lose its industrial competitiveness in low-cost and labor-intensive manufacturing sectors. In the 11th and 12th Five-Year Programs this problem was identified and China focused on quality of growth by supporting innovation and economic efficiency. Still some of the means to support economic development were questionable. Especially after the global financial crisis in 2008-2010, China boosted growth through government investments in booming local real estate markets and large (often inefficient) state-owned enterprises (SOEs), which many are led by family members of the Party elite. (Wharton University of Pennsylvania 2013; The World Bank, 2013)

Key elements of Third Plenum (2013)

Before establishing the expected 13th Five-Year Program (2016-2020), the prior guidelines to enlighten future development was announced during the latest Third Plenum (2013). The term, Third Plenum, refers to the third plenary session of the Central Committee (the highest authority of the Communist

Party of China), which is led by the new leaders of China. Plenums typically take place a year after new leaders take office and after they have founded their power base. The latest leadership transaction took place in two-stage process between the end of 2012 and beginning of 2013, when President Xi Jinping and Premier Li Keqiang replaced former President Hu and Premier Wen Jiabao. Despite the Third Plenum, new President Xi Jinping made public statements that he follows the 12th Five-Year Program throughout its entire lifespan. (APCO Worldwide, 2010; BBC News China 2013)

As the previous Third Plenums, the latest one has also expected to have a major impact on China's development. Avery Goldstein (Wharton University of Pennsylvania, 2013) claims in web article that: *“The plan, titled, ‘The Decision on Major Issues Concerning Comprehensively Deepening Reforms,’ turned out to be “far more detailed, far more ambitious, far more unreservedly pro-market reform than many outsiders expected,” and “This is by far the most ambitious, comprehensive reform plan that I’ve ever seen — it goes beyond the reform plans of 1978 or 1993.”* In year 1978, Third Plenum led by Deng Xiaoping, established the opening-up of China's economy, spearheading major market-oriented reforms. Third Plenum in 1993's, led by Zhu Rongji, publicized the "socialist market economy" and demolished a large part of China's state-owned sector. (BBC News China 2013, Bloomberg 2013, Wharton University of Pennsylvania 2013)

President Xi publicized his vision of the Chinese Dream, or the “great rejuvenation of the Chinese nation,” which covers the goals of transitioning to a “moderately well-off society” by 2020 (the centennial of the Party's founding) and pursuits to reach developed nation status by 2049 (the centennial of the People's Republic of China) quickly after he was appointed Party Secretary in November 2012. The roots of term “moderately well-off society”, or *“xiaokang shehui”* in Chinese, go back at least 2500 years when Confucius created the concept. The term *“denotes a middle-class level of prosperity at which basic needs are comfortably met, with a bit to spare besides”* (The Economist, 2003). It is used constantly by the leaders at all levels of the Party in addition to governmental media, because the purpose of using the term is to convince the general public that the Party really cares about people's welfare. The term also tries to enhance the image of the Party since its previous attempt didn't gain hoped popularity, instead, the previous attempt “Three Represents” was blamed for its lack of understanding about the everyday concerns of ordinary Chinese. Furthermore, the 18th Central Committee's Third Plenum meeting, in November 2013, culminated in a far-reaching 60-point blueprint for economic, social and legal reforms aiming to drive China towards Xi's dream. (The Economist, 2003; Wharton University of Pennsylvania 2013)

Embassy of the People's Republic of China in Ireland published summarized translation of the Third Plenum in their website 15th November 2013. The following summary highlights the main points of the China's development in next bullet points:

- *China to claim more gains of state-owned capital:*
 - *30% of the gains of China's state-owned capital will have to be handed back to the government by 2020. At present, the proportion ranges from zero to 15%.*
- *China encourages private capital to develop mixed-ownership economy:*
 - *China has decided to allow more non-state-owned capital into the market in order to develop a more mixed-ownership economy. Non-state-owned capital will be allowed to take equity stakes in projects featuring investment by state-owned capital, and employees of multi-ownership enterprises will be able to hold shares in their companies.*
- *China to tackle monopolies, introduce competition:*
 - *China will promote market-oriented reform in state-owned enterprises (SOEs) by further breaking monopolies and introducing competition. More state-owned assets will be channelled into public welfare SOEs. Administrative monopolies will be further broken and competitive business will be introduced, the railway sector being one example.*
- *China to allow private capital to set up banks:*
 - *China will open up the banking sector wider, on condition of strengthened regulation, by allowing qualified private capital to set up small- and medium-sized banks.*
- *China to hone income distribution:*
 - *China will enhance regulation of income secondary distribution through taxation. The country will meanwhile focus on increasing the share of work remuneration in primary distribution, explaining that information systems on personal income and property will be established among efforts to narrow income gaps between urban and rural areas, different regions and sectors. China aims to bring about an income distribution pattern that is olivary in shape.*
- *China to abolish "Reeducation through labor" system:*
 - *China will abolish the "Reeducation through labor" system as part of a major effort to protect human rights.*
- *China to accelerate "Hukou" system reform:*
 - *As part of its urbanization push, China will accelerate the reform of its "Hukou" system, or household registration system, to help*

farmers become urban residents. China should set reasonable requirements for rural residents to obtain Hukou in large cities, and strictly control the size of population in megacities. Effort should be made to make basic urban public services available for all permanent residents in cities and include all rural residents into the affordable housing system and the social security network. Household registration reform is part of the improvement to the mechanisms for healthy urbanization, as China builds a new type of urbanization that puts people at the center.

- *China to reduce capital punishment 'step by step':*
 - *China will reduce the number of crimes subject to death penalty "step by step".*
- *China to ease one-child policy:*
 - *China will loosen its decades-long one-child population policy, allowing couples to have two children if one of them is an only child.*
- *China to improve grass-roots law-enforcement:*
 - *China will strengthen law-enforcement in sectors related to people's livelihood. China pledged to reinforce grass-roots law-enforcement power over food and drugs, work safety, environmental protection, labour and social security, as well as maritime space and Sea Islands.*
 - *China will establish an authoritative and efficient law-enforcement system by reorganizing law enforcement bodies, centralizing law-enforcement power and eliminating overlaps in the functions of various bodies. The country will improve its urban management system and the quality of law-enforcement activities and other services.*
- *China orders crackdown on Internet crimes:*
 - *The Communist Party of China (CPC) has reiterated its resolve to strengthen public opinion guidance and crack down on Internet crimes. China will reinforce its overall administration over cyberspace in accordance with the law and accelerate formation of a sound Internet management system to ensure national Internet and information security. The nation will also institutionalize releases of news and raise the occupational standards for practising as a qualified journalist.*
- *China eases burden on ecologically fragile areas:*
 - *China's central authorities have decided not to press local governments located in ecologically fragile areas to pursue economic growth regardless of environment deterioration. Some*

ecologically fragile and poverty-stricken areas will be free from assessment of their economic performance.

- *China will also register the ownership of rivers, forest, mountains, grassland, desert and beaches and put them under clear and effective supervision. The country will try to make a balance sheet of natural resources with its own administrative division and officials audited on their performance when they leave the office.*
- *China's environment authority will tighten up monitoring of all pollutants and tighten supervision.*

To conclude main issues in Third Plenum, one of the central changes will be the conversion of China's growth model from the transition of economic 'wonder' to 'normal' development. The present growth model is best known for the mixture of both rapid economic growth and serious structural imbalances. Third Plenum also straightens out the relationship between government and the market, letting the market to play a determinative role while refining the government's role and allocating resources. The targeted change is a changeover to an economy that is less dependent on massive government investment and more driven by consumption, innovation and market forces. Through this change the plan seeks improvements in social justice and quality of life. Experts believe that if the reform will be successful, it would upgrade China into the group of modern and developed countries since then the nation becomes a more mature civil society with a more sustainable economic. (BBC News China, 2013; Huang, 2014; Wharton University of Pennsylvania 2013)

Challenges of Third Plenum

As pointed out in the beginning of the chapter, even though China's development has been enormous, it has as well generated huge challenges that China needs to overcome in coming years. How the Third Plenum's decisions will actually affect China's development is a vital question for the future development of China. The future will shape the correct answer in upcoming years but the speculations of Third Plenum and its assumed achievements have raised several perceptions for and against. Third Plenum's development strategy is argued to be "*politically conservative and economically liberal*" (Li & McElveen, 2013) and since economic and political development is closely linked, the strategy might not be sustainable. Third Plenum blueprint also offers only a few details about the timeline and its steps on how reforms will lead up to 2020 targets even though its concrete innovations lean on streamlining and improving

the government's decision process. (Godement, 2013; Li & McElveen, 2013; Wharton University of Pennsylvania 2013)

According to debate on behalf of political reform, it has been claimed that the most significant change in China's future development would be achieved through reconstruction of the current power structure. Third Plenum plan has argued to ensure the power and longevity of the Chinese Communist Party. To highlight the issue, Li and McElveen (2013) state in their article that: *"In fact, the politically conservative nature of the top leadership has become evident over the past year as media censorship has tightened and public intellectuals at China's universities, think tanks and other institutions have been instructed to avoid speaking about seven sensitive issues: including universal values, freedom of the press, civil society, citizens' rights, past mistakes made by the Party, state capitalism, and judicial independence (or constitutionalism)"*. Marshall Meyer (Wharton University of Pennsylvania, 2013) also notes that: *"So many things in the economy are approaching breaking points, which, in turn, could threaten social stability [if current power structure fails]"*. Concern behind both of the statements is whether current power structure manages to overcome future challenges or not. Still, despite the conservative approach, it is possible that features of Third Plenum will unintentionally lead to transformation in China's power structure. (Li & McElveen 2013; Wharton University of Pennsylvania 2013)

From economical point of view, a key question is that how well the initiatives of Third Plenum can tackle on the evolving financial challenges. The current economic growth is already slowing and the rising wages, associated with emerging labour shortage, are rebalancing the economy. Profit margins are declining due higher wages and simultaneously investment returns and export competitiveness uplift household income. Therefore, according to Huang (2014) *"...activities slow and external account surpluses decline. Higher wages improve income distribution as low-income households rely on wages and high-income households rely on investment returns. They also raise the consumption share of GDP as household income outpaces national income."* However, China's latest (2012) 36% consumption share of GDP is surreally low compared to the world average of 60% (Rosen & Beibei, 2013). Third Plenum's reforms, especially the ones related to financial liberalisation are critical because of the way they are implemented will present the direction of upcoming economic development. (Huang, 2014; Rosen & Beibei, 2013)

Huang (2014) lists six areas in his article, where transition of financial liberalisation should target the important changes: *"Further growth deceleration, because the economy is now more advanced and the labour force is already*

shrinking; higher inflation pressure, as a result of broad-based and continuous cost increases; improving income distribution, due to not only wage increases and interest rate liberalisation but also more proactive income distribution policies; a more balanced economic structure, with much greater shares of consumption and services in the economy; accelerating industrial upgrading, as rising costs rapidly change the competitiveness of industries; and more volatile economic cycles, as a natural feature of a market economy.”

Areas stated by Huang are important accelerators of growth led by households and small and medium-sized private firms since the recent dominant economic trend has favoured state-owned enterprises (SOEs) and other instances with closer connections to state. Because state banks have issued fewer loans to small and medium-sized private firms and when the Chinese stock market has underperformed, the middle class has been left with only few investment opportunities without the exception of real estate. To highlight the importance of this problem, many of China’s current economic problems, including excessive shadow banking, large local debts, manufacturing overcapacity, and property bubbles, are cause of this “lost decade” of missed investment opportunities. Despite the significance of proposed market reforms in Third Plenum, the reforms will face strong opposition since many of its initiatives will effect on special interest groups such as SOEs, corrupt officials, bureaucratic institutions, and local governments. Major part of the opposition will come from the SOEs, which have also been the main source of official corruption, because market reforms would harm their privileges. (Li & McElveen 2013)

However, The Third Plenum blueprint doesn’t contain many direct measures for SOEs, besides a new requirement for handing over 30% of their dividends to state. Still the reform indicates that the market has “decisive”, rather than a “fundamental”, role in allocating resources. This works as major theoretical principle to reduce monopoly power of SOEs. In addition to support market reform targets, three SOE monopolized industries – rail, oil, and telecommunications – have been forced to publish corruption prosecutions of their senior executives in year 2013. The minister of the State-owned Assets Supervision and Administration Commission (SASAC) who supervises all state-owned-enterprises was also arrested during the same year. Moreover, the ministry of railways was also replaced and the state announced that the private sector would be allowed to invest 200 billion Yuan in railways over the next two years. All these events speak on behalf of the strong commitment and direct actions what the government has done to reach goals of Third Plenum. (Li & McElveen 2013; Wharton University of Pennsylvania 2013)

The fight against corruption is also a central topic in discussion on how well the Third Plenum will succeed. The on-going campaign against corruption is growing into one of the broadest in China's modern history. Highlighted in Oster's (2014) article; professor Anthony Saich from Harvard University claims that: *"This is the most ambitious anti-corruption campaign since at least Mao's days"* and his statement is supported by professor Andrew Wedeman from Georgia State University, within the same article with words: *"This is the most sustained drive against high-level corruption since the advent of economic reforms in the early 1980s."* The anti-corruption campaign is strongly emphasised by president Xi Jinping and according to The Communist Party's internal disciplinary organ; it is said that 182,000 officials have been punished for corruption and abuse of power in 2013 (Oster, 2014). President Xi has also said that anti-corruption campaign would go after "flies and tigers" (Teng, 2014), which means that the campaign will focus on corruption at all levels, despite the ranks of the suspects. (Oster, 2014; Teng, 2014)

Despite the praise, the campaign has also accumulated second thoughts and resistance. Quote from Teng's (2014) article: *"To the party, anti-corruption campaigns are very useful because they are popular with the masses and can help take out political rivals. But because they allow winners in a political struggle to consolidate their gains, the end result of these anti-corruption campaigns is yet more corruption among those lucky enough to remain in the system. In other words, corruption has become institutionalized, but anti-corruption is far from systematic."* summarizes well the fundamental problem of the campaign. Another citation from Teng's (2014) article: *"The anti-corruption 'successes' are therefore the result of political infighting, not the rule of law. Without competition between political parties, real elections, checks and balances on power, judiciary independence, a free press, or a strong civil society, Chinese corruption will remain pervasive and systematic. Few corrupt officials are caught, a signaling function which invites yet more corruption"* shares more insights, whereas the campaign should pay attention instead of too optimistic promises. In addition, other examples, such as the case when China blocked access to the Bloomberg's website after Bloomberg revealed the multimillion-dollar assets of relatives of Xi Jinping (Bloomberg News, 2012, 29 Jun), months before Xi's election as President, puts a negative light over the system even though President Xi is publically concerned as a clean politician (Branigan, 2012). Another interesting side note to the corruption discussions are its huge costs to the economy (more than \$100bn in according to a report published by Bank of America Merrill Lynch in Sudworth's (2014) article) as well as the former Presidents, Jiang Zemin and Hu Jintao, pursuits to limit the on-going anti-corruption efforts (Keck, 2014).

6 The Big questions of the future

Importance of a holistic overview

Where the previous chapter focused on the influence of essential blueprints, this chapter will focus on the big questions, which will likely have a huge impact to the Chinese economy in case they happen. The purpose of this alternative perspective is to extend the knowledge, which is linked to topics of Chinese future. As known, future events cannot be overseen but since acknowledging the development guidelines and expected directions as well as the possible scenarios, it is easier to create preliminary action plans, which will increase the speed to respond to future events when something desired or undesired happen. Therefore this chapter will highlight major themes, for example boost within innovation policy as well as the increasing amount of Chinese graduates, which will have a special character and effect on Chinese development. Themes, expressed in next subchapters, are meant to provide analytical overview and explorative discovery of probable scenarios and factors, which will affect on China's development path. Despite the fact that some of the themes will have more secure influence to China, also other future scenarios such as megatrends (for example increasing global population), game-changers (for example new technologies), black swans (discrete events with high influence, for example global pandemic) and alternative worlds (distinctive and unlikely views of the future) should be considered while creating strategies for the future even though they are not included as part of this thesis. (National Intelligence Council, 2012)

Innovative China

China's Science and Technology Development Plan targets 2,5% R&D share of GDP by 2020 and it symbolizes well the desired speed up and transformation from "Made in China" towards "Created in China". The desired transformation has also made significant progress since China has strengthened its technological capabilities and upgraded the technological sophistication of production and exports during the latest Five-Year programs. Sceptics have doubt China's ability to innovate, but the past 35 years economic development in China has been a great example of successful process of innovation. In addition, efforts to boost Chinese innovation capabilities have been supported by large investments in physical infrastructure, such as logistics, renewable energy and communications. Furthermore, China's expanding education system and great supply of workers with science and engineering skills set a sturdy base for

positive forecasts of reaching the stated goal. (Huang, 2014; Schellekens, 2013; Veldhoen et. al., 2012)

China is ranked at the top of the world, together with the United States and Japan, in number of patents and ratio of patents to R&D expenditure. Also measured by patent numbers, Zhongxing and Huawei are among the world's top three companies. However, it still needs to be acknowledged that both companies have purchased part of their patents through mergers and acquisitions. China's ability to innovate can be illustrated through its automobile, IT and space industries as well with its breakthroughs in high-speed trains and raising commercial aircraft industry, which targets to bring large aircraft to markets by end of this decade. Another key driver related to innovation is the Internet, which is revolutionising China's finance, commerce and publishing sector. (Huang, 2014; Veldhoen et. al., 2012)

Despite the glory, Innovative China has its problems too. Innovation systems created by the cities try to encourage new entrants but low rate of entry and exit leave room for speculations whether truly innovative firms, especially privately owned SMEs, are tutored in proper way or whether struggling firms are allowed to fail in adequate amounts. Another delayer of innovation is the large share of state owned and state controlled enterprises in key industries. SOEs are complained to be among the less innovative firms and have a low level of productivity. Enhancements to innovation capabilities remain to be more difficult when shares of SOEs continue to dominate industrial output and the R&D spending and when the local industries are strongly protected by local authorities. Third Plenum tries to tackle these problems but only future will show how effective its efforts are. (Yusuf, 2011)

Future talents

The current state of education and high efforts to improve it will have major affect on China's future. The pool of Chinese talents will be enormous because it is expected that China will have up to 200 million college graduates by 2030, which is more than the entire workforce of the United States. The numbers are also impressive. In year 1999, number of new university students was 1.6 million and graduates 1 million, but compared to year 2012, when amount of new students were 7.5 million and graduates 6.7 million, it can be noticed that the change has been really significant. In the beginning of the millennium, twelve other countries have had more universities than China within the top-ranked 500 universities list but China's efforts to improve education has led to a situation where only five other countries have more universities in the same list

by 2011. Since 1999, Chinese government has also increased its spending on education annually by around 20% and the Chinese Scientist working abroad are encouraged to return to China via the “Thousand Talents” scheme, which simultaneously increases the knowledge exchange programs between universities and companies and will feed the growth of intellectual capital of China. (Orr & Roth, 2013; Yusuf, 2011; Veldhoen et. al., 2012)

However, even though Chinese universities are producing large numbers of reasonably well-qualified specialists, the graduates are claimed to rely too much on their theoretical skills to overcome predefined problems and their ability to be truly creative, instead of *shanzhai* (“copycat”) innovation culture, is questionable. Still, universities take seriously the efforts to enhance the level of their graduates. For example the Fudan University, where one of the world’s top thinkers of wastewater-treatment science was hired after the development process of the program, underline the strong pursuits in the seek of excellence. In addition, innovations in pedagogical techniques like greater use of multimedia and flexible online training methods, and co-operation with leading foreign top universities will also help to improve the knowledge of the next talent generation. When considering the young talents, another big issue is also the employment. According to surveys, many of the young talents are more attracted to work in safe career tracks such as the government or state-owned enterprises rather than entrepreneurial sector but since the private sector is now growing (due to the earlier described changes and plans to the China’s economy) more of the talents will be required to work in fast-growing companies, which then improve innovative habits and creativity among the young talents. (Orr & Roth, 2013; Yusuf, 2011)

Additional but really remarkable difficulty related to the future talents is the youth unemployment, which is based on the fundamental problem that China is not creating enough high-quality positions, which would suit the needs of its highly educated youngsters. The study from 2013 estimates that at least 600,000 graduates from the prior year hasn’t found a job yet (Tse & Esposito, 2014). This underlines the seriousness of the problem since the stated amount is only an addition to the approximately 7 million annually graduating students, who are also competing for the same positions. In addition, another drawback is the current ambition of the most universities to enlarge their size in hopes of achieving more revenue. This phenomenon causes unfortunate consequences to students since their quality and employability decreases. Furthermore, the youth unemployment has also two sides; on the one hand high-school-level-educated youngsters can find easily simple low-skilled jobs since China has a shortage of such labour but on the other hand, there is a large pool of qualified graduates who are facing difficulties on finding jobs that they desire. These

“*Kěn lǎo zú*” or “Not in Employment, Education or Training (NEET)” are rather staying at home and relying on their parents support than working in positions that they don’t prefer. Their parents also typically encourage this behaviour since they don’t want their children to end up in similar low-skilled jobs that they have been working on and thus they force these already qualified graduates to educate themselves in even higher levels in hopes of finding (better) jobs with higher salaries. (Tse & Esposito, 2014)

Fear of the middle-income trap

In seek of reaching the high-income status; China has a fear of ending up in “the middle-income trap”. The middle-income trap refers to the case where a country fails to reach the final step of desired development, the high-income status, after the rapid change from low-income to middle-income country (The World Bank, 2013, p. 12). The rapid development from low-income to middle- or upper-middle-income status leans on the advantage of effective use of low-cost labour and the easy adaptation of technologies. However, when a country reaches the state of middle-income, these advantages disappear due to the rise of wages and the decrease of cheap underemployed rural workforce. The growth of productivity caused by sectorial reallocation and technology catch-up will finally run out when middle-income status is reached and the higher wages will lower the international competitiveness in labour-intensive exports. If a country fails to increase its productivity through innovation or if it relies only on foreign technology, it will find itself trapped. The middle-income trap theory has been backed up by several empirical findings, such as the examples from Latin America and Middle East, where many economies achieved the middle-income status in 1960s and 1970s but have failed to improve their status ever since. (The World Bank, 2013)

Concerns on China’s path towards the middle-income trap have been supported by recent statistics. For example Roubini (The Economist, 2011) notes that: “*China was spared a recession in the wake of the financial crisis because investment in fixed assets, such as transport infrastructure and factories, increased from an already very high 42% of GDP in 2008 to nearly 50% in 2010. No country, he says, could be productive enough to invest 50% of GDP in new fixed assets without eventually facing “immense overcapacity and a staggering non-performing loan problem”.* Still, other East Asian economies, such as Japan, Taiwan and Korea, have managed to avoid the middle-income trap by switching investment lead growth towards domestic consumption and exports. However, to highlight China’s concern even more, the stated East Asian countries had only 35% peaks in shares of investments in their GDP

during their development phases, which are still low when compared to China's 50% rates. In the same Economist article, Ge Zhaoqiang, a senior researcher at China Merchants Bank, warns: *"China's economy had become 'seriously distorted' by prolonged dependence on high levels of investment. There was now a risk, he said, of an economic downturn 'unprecedented in the past 30 years' with possibly damaging consequences for China's social and political stability."* (The Economist, 2011; Wharton University of Pennsylvania, 2013)

Possible financial hazards in China

Forecasts related to China's possible financial problems are tricky. For years the market have faced speculations and warnings linked to problems such as local government debt, property price and shadow banking. Since investors cannot overlook the risks, it is important to acknowledge the possible scenarios, potential threats and consequences of the latest reform plans. Predictions on the bursting property bubble have been speculated for 10 years now and while some have been waiting the worst, others have benefitted from the past 10 years of investment opportunities. Nevertheless, the upcoming market reform plans towards a full market system aim at reshaping the playground since the era of the privileged position of monopoly SOEs is coming to an end. (Huang, 2014)

One of the major topics related to China's upcoming financial development is the role of local governments. Third Plenum emphasises the efforts to give local governments more revenue sources, such as property taxes, so that they could achieve better various the responsibilities assigned by the central government. Bottelier (Wharton University of Pennsylvania, 2013) deals with issues related to local governments by saying: *"China operates under a system that has been in place since 1994 in which the central government distributes revenue to the provinces. Yet, the central government continues to heap responsibilities on local governments without giving them access to more revenues. The unfunded mandate problem is especially acute at the county government level, [which is] responsible for 70% of the country's social spending for health, education and pensions."* In addition, Bottelier also points out that: *"Local governments, on average, depend on land leases for 40% of their revenues. It is the largest source of corruption and social unrest. With local officials confiscating and reselling property, engaging in secret agreements with developers to rezone agricultural land for non-agricultural uses and the like."* The statement illustrates well the complexity of current situation, which also has a big influence on the current state where local governments rely heavily on debt in their operations. To guarantee the financial stability, the upcoming reforms have to pay special attention to actions avoiding burst of the debt bubble.

Another big issue for China is the banking system. China's commercial banks are blamed to obey orders of the state and local governments during the lending decisions and that distorts the fundamentals of an open commercial banking system. Banks, for example, poured money into the local governments after China's central government approved the 4 trillion Yuan stimulus package in 2009. The money was spent in large infrastructure projects, such as roads, airports, rails and expansions in other capital-intensive industries, despite the fact that most of the investments will probably never generate adequate financial returns. The current system favours SOEs and if their loans go bad, the government will simply roll the loans over. This makes the situation more complicated for SMEs because they have now difficulties on getting loans. SMEs don't have such a governmental backup as SOEs and banks refuse to permit loans since the risk is way higher compared to SOEs. (Li, 2012)

In China, up to 80-90% of the business is still funded by bank loans and since the SMEs struggles with the commercial banks, the situation has caused a new financial problem: a shadow banking sector. It is expected that currently over 50% of all the new loans comes from the shadow banking sector and that makes the problem really severe. The term, shadow bank, refers to financial institutions that act like banks but are not supervised like banks. Therefore this grey market area is not regulated as the banking sector should be; terms to permit loans vary in risky manners and borrowing interest rates could be as high as 20%. The shadow banking isn't illegal but in the worst case, if the restructuring of the current Chinese banking sector and the shadow banking sector is mismanaged, the events might lead to wave of collapses and deep recession. The most sustainable way of China's financial development would be the true liberalization of the banking sector in which all financial actions would be prosecuted by commercial criteria and without stress or distorting commands from the authorities. Nevertheless, the on going complexity might still continue for years until the mess, who owes what and to whom, is sorted out. The problems in the banking system have also caused a rapid rise in housing prices because real estate is considered as a better investment than the alternatives provided by the finance sector. (Kordes, 2013; Kosonen et. al., 2013; Li, 2013)

In addition to banking sector problems, the investments flowing abroad are also a big concern to China's financial development. One of the key issues related to the outflows abroad are the so-called "millionaire visas". The term refers to a system, which exists in many countries. Millionaire visa enables residence permit or full citizenship to an investor if he or she has invested a large enough amount to the foreign country. The system has lead to a situation where many rich Chinese have transferred their assets abroad in hopes of better secure for their assets and special benefits, which residence permit or citizenship of

another country provides. Despite the outflow of significant amount of assets away from China, the system is also problematic in other terms. Because China doesn't allow dual citizenship, the ones who have gained citizenship from abroad lose their Chinese citizenship and they are then on treated as any foreigner in China. This means more obstacles related to bureaucracy and results in high an amount of people permanently moving out from China. The on-going situation has brought up many concerns. The most pessimistic forecasts state that in the worst case all the rich and highly educated Chinese transfer their assets abroad and move away from China. This scenario would be fatal for China's development and it would strongly push China towards the middle-income trap. China needs its high incomers and educated citizen to boost the domestic development and it will be seen how new policies can tackle this problem. (Ma, 2014)

Environment of the future China

Environment is a broad term and it covers various important aspects when the future of China is under consideration. To start, it should be understood that China is an enormous and diverse country. It could be compared to Europe, since it is approximately the same size in geographic terms and it has several diverse areas with own special characters such as culture or level of development, which is similar to setting in Europe if the difference between European countries is considered. When the difference inside Chinese borders is considered, the most discussed topic is China's rural-urban deviation and the income equality gap. The eastern coast with large and modern metropolises versus the under-developed inland regions with small towns demonstrate properly the situation. Even though, the both 11th and 12th Five-Year Program have clearly reflected the aim to smoothen the unequal gap in harmonious and sustainable manners, the transformation will take time and the path will be challenging as the citation from Knight (2013, p. 26-27) shows: *"It was inevitable that income inequality would increase significantly as China moved from a centrally planned economy, in which egalitarianism was a cornerstone, to a market-based economy... It is an important question whether China will enter the second stage of Hirschman's tunnel effect—that is, whether or when a critical mass of people will begin to see inequality not as a sign of available opportunities but as a sign of unequal opportunities and distributional injustice."* (Huang et. al., 2012; Knight, 2013; The World Bank, 2013)

Before demolishing the "Iron Rice Bowl" –system in 1980s, unemployment was almost an unknown term within the Chinese. The idiom, "Iron Rice Bowl", refers to a system that guaranteed lifetime employment in state enterprises and

caused an unhealthy cost structure in state owned companies. However, after the economic reforms, SOEs needed to dismiss almost 28 million people between the years 1999 and 2004, and since the private sector couldn't respond to the excess supply of workforce, the unemployment became a permanent issue in China. According to Chinese government the official rate of unemployment was only 4% in 2012 but the rate has been criticised to be too low even though the exact rate is difficult to measure due to the migration and grey economy. Nevertheless, according to the future prospects by IMF, China will face a shortage of manpower if the birth rates won't rise in coming years. Despite the government's latest action to loosen the one child policy, the worst scenario predicts that China will face a deficit of 140 million employees in 2030. (Kosonen et. al., 2013)

Urbanization will be an increasing trend in the future whether people want it or not. The rapid infrastructural development can move cities around the people in rural regions and people may find themselves living in urban locations although they haven't voluntarily moved to urban districts. The targeted 65% urbanization rate by 2035 might be reality even earlier because of the already high 54% rate in 2013 (2,5% above the 12th Five-Year Program target of 51,5% by 2015) and the latest forecast predicts the 60% rate to be achieved by 2018. The fast urbanization links also to the increasing demand of energy and currently China is the largest energy producer, consumer and emitter of carbon dioxide (CO₂) in the world. To meet the increasing demand of energy, China has also established ambitious targets for nuclear power. However, after the Fukushima nuclear accident in Japan, China has suspended the permissions to build new nuclear power stations, strengthened nuclear power safety plans, and moderated expansion. Still, the accident can be seen only as a small delay to China's plan to reach the 58 gigawatts (GW) of nuclear power by 2020. (Huang et. al., 2012; Asia Development Bank, 2013; China Daily 2013)

Despite the questionable status of nuclear power it cannot be forgot that China has also huge resources of renewable energy. The installed hydro and wind power capacity is largest in the world and it keeps growing steadily. The green energy targets stated in the 12th Five-Year Program were also positive. Targets included production rates of 420 GW (including 70 GW pumped-storage power) hydropower, 200 GW wind power and 50 GW solar power by the year 2020. The developing technologies and innovations within the energy industry may also lead to more sustainable development in energy supply. However, the scenarios predict that China's energy demand will increase between annual rates of 2,3% - 1,4%, and since the fossil fuels are such a huge part of power generation output (79,7% in year 2010), questions related to sustainability and pollution remains acute. For example in year 2012, China achieved a

questionable ranking by using more coal than the rest of the world combined. Simultaneously it also emits more mercury and other pollutants than any other country. (Asia Development Bank, 2013; Kosonen et. al., 2013)

Pollution is very critical, if not the most critical issue that China has to overcome in coming years. Pollution is a result of the rapid economic development of the past two decades without relevant air-pollution laws, the dramatic increase in car ownership, and China's overwhelming reliance on coal that China burns almost as much as the rest of the world combined. 14 out of the 20 world's most polluted cities are located in China (measured with particulate matter, micrograms per cubic meter, in year 2010, source: The World Bank, 2013) and sad examples such as the "Airpocalypse" in Beijing 2013 give a proper perspective to the problem. "Airpocalypse" refers to period in Beijing when small, lung-penetrating particles reached levels of 993 micrograms per cubic meter. Typically such a high level is seen only during forest fires and the level is also over three times higher and out of the scales set by The U.S. Environmental Protection Agency (EPA). According to EPA, anything above 300 is dangerous and the maximum of the scale is limited to 500. (Wagstaff, 2013; The World Bank, 2013)

Over the last three decades, without no significant sign of increase in smoking rates, the rate of lung cancer have increased by 465% and according to scientists the problem is so bad that lives of 500 million people will be reduced by an average of 5.5 years in northern cities of China. Studies also connect poor air quality to autism, depression, and long-term lung damage. The poor situation has caused the rise of the dissatisfaction among the Chinese citizen. In addition to the shared frustration in the social web platforms, such as in popular microblogging site SinaWeibo, a growing environmental movement has also caused increasing amount of public protests against the pollution. Chinese citizens call after clean food, clean water and clean air, which according to former Communist Party official Chen Jiping (Wagstaff, 2013), has caused the number of "mass incidents", or protests in other words, between 30,000 and 50,000 every year. Chen's estimates are, however, rather low in comparison to the numbers presented by China's leading sociologist Sun Linping, who states that the amount of mass incidents was 180,000 in 2010. When Sun's rate is compared to the official rate in 2005, which was 87,000, it can be noticed that the amount of protest has increased rapidly. (Nojonen, 2012; Wagstaff, 2013; The World Bank, 2013)

Despite the fact that pollution harms Chinese citizen, it will also hurt the innovation approaches stated in Third Plenum. Recruitment of top foreign talents to support desired development has become harder and both top talents,

domestic and foreign ones, will most likely demand higher salaries because they have to suffer from awful air quality. Emissions also influence to global warming and climate change. Brömmelhörster et. al.(2013) analyse the probable impacts of climate change in their report 'Economics of Climate Change in East Asia' highlighting the four primary areas of concern in East Asia:

- Water resources and flooding, since higher levels and greater variability of rainfall will increase the likelihood of both minor and major floods.
- Coastal zones, which will be exposed both to sea-level rise and the increased frequency and/or severity of tropical storms associated with higher sea temperatures.
- Agriculture, which may become more prone to droughts in important areas, such as the northern plain of the PRC, while higher daytime temperatures will tend to reduce yields of major crops.
- Heat waves, which tend to increase mortality and morbidity rates for various reasons unless housing and other infrastructure are adapted to provide better cooling and ventilation.

The question of future environmental development is cumulated to efforts that China is actually going to execute in its future. Tong Zhu, an air pollution specialist who travels between Princeton University in U.S. and Beijing, claims in The Week's article 'China's massive pollution problem' (2013, 9 Nov) that political infighting in China's giant bureaucracy as the biggest impediment to progress. He says that: *"There is technology available [to fix the problem]. I think as long as there is political willingness, the environmental situation can be drastically improved."* According to China Daily USA (2014, 11 Feb), Zhu's claims have been answered. Zhai Qing, vice-minister of environmental protection, revealed a new action plan that contains the 22 policies, of which 10 are economic and another six related to management, to cut the density of inhalable particulate. The government aims to decrease particulate emissions by at least 10% in major cities by 2017, after The State Council approves the action plan in near future.

China's global relations

It is interesting detail that the Third Plenum doesn't say anything about China's international stance. Perspective that makes it especially interesting is the point that President Xi's power has recently increased. In addition to chairmanship of the Military Affairs Commission, Xi is also in the lead of the new National Security Commission (NSC), which has two initiatives: protecting the country's security and safeguarding the ruling status of the Chinese

Communist Party (CCP). Still, the possibility that China would end up in a military conflict with another country/countries before 2020 is unlikely to happen even though there is always an undesired chance that global affairs take a downturn and conflict occurs. The economical and social issues are strong drivers to prevent conflicts from happening and it is more likely that China and other countries strengthen their relationships, which steer towards balanced and sustainable development in both parties. The implicit and explicit political choices made by other countries regarding China will be a key element in pointing the future direction. Nevertheless, there are several topics to ponder around whether they lead to serious and harmful disagreements or positive co-operations within the countries. (Ching, 2014; Godement, 2013; Heinbecker, 2011; Palamar, 2013)

The rise of China, particularly in economic terms, will continue to reshape the global balance of power. China's increased status in value chain will produce both winners and losers, depending on how well other countries can respond to China's on-going development. Another considerable scenario is that the global economy could also end up in recession if China faces a sharp deceleration in its growth. However, the power shift has already caused debate and countries like Japan, South Korea and Australia have already questioned whether China is a threat to their national security and economic interests. The unresolved issues related to territories and access to natural resources (especially to natural gas, oil, and fisheries) is a genuine problem and it tends to raise tension within the countries. Trade between China and Japan has already decreased recently and one argued reason for it is the ownership disagreements of islands in East China Sea, which occurred in late 2012. However, the stated disputes may not lead to armed conflicts but they are still significant concerns since misunderstandings or misperception of who owns what and who rules where can end up to serious conflicts. (Huang, 2014; Palamar, 2013; Kosonen et. al., 2013; Schellekens, 2013)

China's growth links also to the huge consumption of oil. Currently China is the world's second largest consumer and fourth largest producer of oil. The rise in industrial, petrochemical and manufacturing sectors as well as the fact that China became the world's biggest market of automobiles in 2010 gives a strong backup for several economists' predictions of China's upgrading its status as the world's largest consumer of oil by the year 2025. The increasing demand of oil will also mean that as much as 70% to 80% of China's upcoming oil imports need to come from the Middle East and North Africa, which then cause several interesting questions related to global politics. China has already undertaken actions to support the growing demand of oil and a great example of it is China's twin pillar policy in the Persian Gulf, which refers to China's partnership with Iran and Saudi Arabia. Despite the fact that Iran and Saudi

Arabia are rival countries in the same region, China has managed to tie good economic relations with both. Saudi Arabia displaced the USA as the leading supplier of crude oil to China in 2009 and a \$1.8 billion contract between Sino-Saudi entities to construct a railway line between the Holy Cities of Mecca and Medina was also announced in the same year. Both events underline well the strong commitment between the countries. As an interesting side note, according to Economist article many Chinese firms were also converting hundreds of its workers to Islam for securing their contractual work, due the restriction of non-Muslims to work and enter the Holy Cities. (Asia Development Bank, 2013; Gresh, 2011)

Fascinatingly, Sino-Saudi relations haven't disturbed relationship between Iran and China. Instead, both countries have continued to strengthen their economic and political relationships in past years. In addition to 18 economic agreements totalling \$17 billion in year 2009, several agreements on infrastructure and trade cooperation were published during the 40-year anniversary of diplomatic relations between Iran and China in 2011 and currently more than 100 Chinese SOEs operate in Iran. From an objective point of view of the current setting rather interesting. Can China balance successfully with Iran and Saudi Arabia's economic engagement if a situation occurs when it is unable to stand apart as a disinterested actor in the regional rivalry or if tension between Iran and Saudi Arabia escalate due certain issues such as disagreements about Iran's nuclear program? (Gresh, 2011)

However, China has enlarged its influence through the twin pillar policy and it has become a major player in the Persian Gulf. China has also increased its military and naval presence in broader Gulf region, which communicates about its efforts to secure energy shipments in and out of the region. The new setting has forced the United States to adapt into a new power structure. The U.S. must acknowledge China's growing interest and influence in the broader Gulf region and adopt a new foreign and regional security policy, if it doesn't want to risk the stability of the Gulf. In addition to the Gulf, the U.S. has also a weaker status in the Pacific compared to the situation before China's growth and its upswing in military sense. From U.S. point of view the conflict with China is very unlike but still, the rise of China and the fact that U.S. is losing its status as the world's only superpower evoke thoughts of how both enormous countries will react to each other. (Gresh, 2011; Palamar, 2013)

Sino-Finnish Relations

Quote from Chinese Ambassador of Finland Huang Xing, *“Sino-Finnish relations are a role model for countries with different social systems and different cultural traditions to treat each other as equals, maintain friendly exchanges and cooperation of mutual benefits”* (Global Times, 2010) underlines well the friendly relationship between Finland and China, which has been strong for decades. Furthermore, it could also be argued that the trouble-free relationship is a cause of long distance friendship. Nevertheless, Finland was one of the first countries that set diplomatic ties, in 1950, and the first capitalist country that established bilateral trade contract with the People's Republic of China in 1953. The development of Sino-Finnish relations has been steady and confident over the past six decades and its significance has been especially important in the past 30 years. In 2012, China was the fourth largest trading partner and the largest trading partner in Asia for Finland. Related to Finland's GDP, trade between Finland and China is one of the largest within the EU countries, with rate of €7.2 billion in 2012. (Global Times, 2010; Mattlin, 2014; Suomen suurlähetystö, Peking, 2014)

The latest signals don't show signs of slowdown between the relations of China and Finland. Instead, cooperation between the countries has broaden and converged and the way of how Finns communicate towards China is diplomatic and respectful. Example of the horrific event in Kunming (the group stabbing, which occurred in March 2014 and caused death to 33 persons) was officially stated by Finland as a terrorist attack, unlike the many other EU countries and Embassy of the United States, which stated the event as a brutal or bloody attack. The terminology matters since the topic is sensitive to Chinese and they felt that without mentioning the term terrorist attack, many countries understated the seriousness of the event. (Paakkanen, 2014)

During the last 10 years, over 80 high level visitors have visited both countries. The President of Finland, Sauli Niinistö, and Finnish Prime minister, Jyrki Katainen, visits to China in April 2013 and September 2013 as well as the current President of the People's Republic of China, Xi Jinping, visit to Finland in 2010 and current Chinese Premier, Li Keqiang, visit to Finland in 2009. Cooperation has strengthened especially in the scientific and technical fields as well as in the educational and cultural exchange areas. The future ventures related to environment protection and clean technologies have been very active, thanks to Cleantech Finland program and Team Finland network in China. Also, the amount of participants in bilateral culture and higher education exchange programs has been growing in past years and many higher

education and research institutes have research and education centers in China, such as Aalto University and Tongji University's co-venture Aalto-Tongji Design Factory, which is located in Shanghai. All examples highlight common approaches to ensure long-term sustainable development in the future. (Global Times, 2010; Suomen suurlähetystö, Peking, 2014)

Currently, over 300 Finnish companies operate in China. Companies employ over 60.000 person and they have invested over €10 billion in China. Despite the notable presence of Finnish companies in China, Chinese investments in Finland are rather low with an estimated amount of €130 million. Recent positive signs have been the Chinese telecommunication giant Huawei's investments in Finland as well as the lately established Sino-Finnish innovation centre in Espoo but still the major problem between Sino-Finnish cooperation lies in the lack of Chinese investments into Finland. To speed up the bilateral development, Finland should adjust its current political approach. Mikael Mattlin, a Doctor of Political Science at University of Turku, claims in his article in *Turun Sanomat* (2014, 16 Jan) that Finland is too careful in its actions related to foreign policy, especially in the situations where it faces risks of ending up in disagreements with major powers such as China, Russia and EU. Mattlin suggests that Finland should more aggressively seek advantages from China. On the other hand he also suggests that Finland should be more active in its efforts to enhance relations between EU and China, because it would increase the economic activity between the regions and favour Finnish economy also indirectly. (Mattlin, 2014; Suomen suurlähetystö, Peking, 2014)

The recent relations between China and EU have suffered from the increase in trading conflicts, particularly related to solar panels and telecommunication networks, and from the new '16+1' policy between China and EU and non-EU countries from East and Central Europe since the policy fights against EU's mission to create common trade rules and agreements within the EU countries. Mattlin notes that the current situation has lead to a state where Finland is stuck between the poorly coordinated China policy of EU and the larger EU countries that drive only their own interests. Mattlin suggests that Finland should follow the same, more independent, approach as it does with Russia or act in a bigger role as a trusted negotiator between China and EU. Finland is in a position where it needs more foreign investments to fuel up its growth. The future with Sino-Finnish economic relations will rely on questions how well the policies will develop. Finland has already the knowledge and infrastructure in arctic and environmental matters that China desires and vice versa China has capital and need to invest more in Europe so the setting of reaching this positive result already exists. (Mattlin, 2014; Suomen suurlähetystö, Peking, 2014)

7 Exploration to the future consumers in China

Possibilities of the developing consumer market

Once focusing on markets, it is rational to start with consumers who are the basis of the market and when focusing more precisely on China, it can be observed that China's new consumer market is steadily increasing due to the on-going economical development. The 90% approximate growth (between 2006 – 2012) in China's gross national income per capita, or in other words the rise in purchasing power parity (PPP), indicate a growing demand of luxury goods, mass products and services. It is expected that China will become the largest economy in the world by GDP in PPP terms and the second largest consumer market in terms of total consumer expenditure by 2020. The growth creates remarkable opportunities also for foreign companies since the demand of China's imports is expected to rise because China is getting wealthier and since the income level rises, more goods are demanded at each price level. The intensity of import demand is predicted to remain strong even though China's economical development would slow down. Many of the biggest consumer-facing companies are also in a situation where they need to enter Chinese markets if they want to grow in the next years. (Atsmon et. al., 2012; Euromonitor, 2013; Schellekens, 2013; The World Bank 2014)

The growing demand has also lead to a situation where more and more companies want their share of the market. It should be also acknowledged that Chinese domestic companies are aware of their increased possibilities in addition to the fact that they have already enhanced their former capabilities. Nevertheless, good news to the foreign companies are the enhancements in the market entry settings such as the Shanghai Free Trade Zone experiment, which was established in September 2013. The Shanghai Free Trade Zone enables foreign companies to enter Chinese markets into finance, accounting, auditing, architecture, childcare and elderly care, culture, healthcare, logistics and e-commerce sectors through the special region. All in all, to understand the potential of increasing consumer market, first needs to be acknowledged the nature of Chinese consumers because they are in the centre of the market. The next subchapters will explain the main issues related to Chinese consumers and ponder the biggest possibilities in the future markets. (Huang, 2014; Schellekens, 2013)

Common characteristics of Chinese consumers

To achieve a general understanding and holistic overview of Chinese consumers, the following paragraphs will enlighten different issues related to the nature of Chinese consumers. Starting with financial issues, average monthly household income of Chinese consumer was 2275 Yuan's (about 266€) in urban areas and 803 Yuan's (about 94€) in rural areas in beginning of 2013. As stated in Third Plenum, the government promotes actions to lower the income gap but still the latest trends forecast that the incomes keep on rising in urban regions and decline in urban areas. The consumer price inflation (CPI) in China has been between 2-6% in last years, which is in around the same scale as the Finnish CPI that has been around 0-4%. The inflation is not expected to grow in coming years since the current inflationary pressures are low and the government has also emphasized actions to control inflation in market-based means rather than with investments. (Kosonen et. al., 2013)

In general, Chinese consumers are reminding more on their counterparts in Western countries due to the rising incomes, urban living, better education, postponed life stages, and greater mobility. Their standard of living has risen, their quality of life has improved and their time has also become more valuable. In addition, economic growth has enabled access to new economic ideas and lifestyles for Chinese consumers and currently they can also purchase goods and services that have been out of their reach before. Despite the increase of western features, Chinese consumers are still a challenge for Western companies. A common misunderstanding is that Chinese consumers are homogenous and that there is "one size fits for all" solutions to meet the needs of Chinese. The statement is false in all levels and companies which try to penetrate into Chinese market with such an old-fashioned and incorrect knowledge will face hard times plus losses in terms of monetary and opportunity matters. (Atsmon et. al., 2010; Neumann et. al., 2012)

It is not realistic to reach all the 1.3 billion Chinese consumers at once and simultaneously fulfil the needs of the entire group. Roughly put, there is two major camps that divide Chinese consumer base in half; the ones in coastal and city areas with middle income and the other ones in inland and rural areas with low income. As said, the deviation is very broad but still it illustrates well the fragmented nature of Chinese market. Since the market is heavily fragmented, companies must understand the different needs and expectations of the diverse customer segments. This leads to the fact that the most successful companies in Chinese markets are the ones, which have a clear understanding on their target group. (Atsmon et. al., 2010; Neumann et. al., 2012; Lin & Wang, 2010)

According to Wong (2001, p. 3) China is collectivist culture and the role of family is a very important issue when Chinese consumers are considered. Family has the greatest influence on the Chinese consumers' buying decisions along with the purchasing suggestions and experiences of friends and colleagues (Chan et. al., 2013, p. 2). Interesting aspect is that Chinese consumers consider shopping as entertainment and sometimes they transform shopping trips into fun days at the malls or hypermarkets together with their families. According to McKinsey & Company's survey (Atsmon et. al., 2010) 73% of Chinese consumers regarded shopping as a leisure activity, 45 % identified it as one of their favourite pursuits, and just over half said it was among the best ways of spending time with the family.

What comes to leisure time, it is also not uncommon that Chinese consumers would just do a window-shopping and compare prices or take shopping as a sport where the winner is the one who finds the best deals. China's economic development has also lead to a state where global retailing practises, such as loyalty programs, will become more relevant in the coming years (Chan et. al., 2013, p. 11). However, when considering from another perspective, because Chinese tend to have now less time for shopping trips due to their limited free time, companies will face more challenges on how to hold consumers for longer time periods. How to attract consumers during their shopping visits have become more important. The on-going trend will likely lead to an increase related to bigger package sizes and home delivery services as well as a boost in promotion campaigns and in-store marketing. Efforts to attach more leisure activities aside the shopping venues or efforts to create better shopping experiences during purchasing events will probably be a very fruitful way to grow sales in the future markets (Atsmon et. al, 2012, p. 29). In addition, the power of impulse purchases should also be recognized since typically consumers make their final buying decisions in stores. (Atsmon et. al, 2012; Chan et. al., 2013)

Another new similarity with Chinese consumers to their counterparts in the developed world is the way that they behave. Chinese consumers have become more demanding and pragmatic than ever (Atsmon et. al., 2010). They are more aware of products and product features as well as they are more willing to pay for better value and quality. They are also using more time to research and study product nuances. A low price is not the main driver for the Chinese consumers satisfaction anymore and the transition from preferring only products functionality to preferring also additional features such as product appearance and innovativity reflect the change in the environment where consumers have power to demand more than basic product features and where sophisticated tastes are also understood as important factors on how to satisfy needs of the

consumers. The Chinese consumers are also brand conscious even though their brand loyalty is often in secondary position since they focus more on brand value (Atsmon et. al., 2010). This reflects to setting where well-known and popular brands are seen as better than less known brands despite actual quality or performance. Another problem related to loyalty, is the increasing difficulty to maintain consumers loyal in China even though Chinese consumers are quite loyal to businesses that they use frequently. Chinese consumers are eager to seek better deals and better quality of goods and services all the time and currently only less than one-third is satisfied with their service providers. This creates a huge opportunity to companies, who are able to respond to a more advanced demand since a big amount of the consumers are willing to change their providers if other companies can serve them better. (Atsmon et. al., 2010; Chan et. al., 2013; Nielsen, 2011)

Nowadays, most of the Chinese consumers can also purchase more than what is necessity and more that they actually need due to the rise of purchasing power (Atsmon et. al., 2012, p. 22). This has lead to growing demand in semi-necessity categories, such as apparel, health care, and household products. The rise of purchasing power has also made Chinese consumers more willing to buy premium and branded products or products that enhance their wellbeing and health. Status issues also play a big role when it comes to the Chinese consumers consumption habits. Like Western consumers, also Chinese consumers judge themselves and others according what they purchase. Chinese consumers have always highlighted their status by purchasing foreign made products nevertheless the similar domestic ones have been cheaper or if the domestic ones have served as good or even better quality with the same price. Current pressure from government and commercial media's side to consume more has also encouraged Chinese consumers to realize their hidden and long-existing desires of glitz and glamour (Lin & Wang, 2010, p. 246).

Another key driver related to Chinese consumers' purchasing decisions is the growing role of emotions (Atsmon et. al., 2010). Especially Chinese mothers have become very aware of their purchases after several food and product safety scandals that have occurred in China. Mothers are highly concerned of materials or ingredients that products contain and they want to be sure that products are not harmful for their children. The example underlines the significance of emotional factors that companies have to provide to consumers. Companies need to be trustworthy in their actions so that consumers gain positive feelings and emotions of reliable products. In addition, emotional considerations can be also reviewed through the rise of consumers' sense of their individuality. Evolution in consumers' values toward a greater emphasis on self-expression

and assertiveness is expected to grow by 2020 and it will strongly affect to the Chinese purchasing decisions. (Atsmon et. al., 2010 & 2012; Lin & Wang, 2010)

Chinese consumers monetary behaviour also differ significantly compared to consumers in the developed world. A common case when a country has become wealthier is that a part of its consumers start to rely on credit and spend more money that they afford. The behaviour origins from a setting where people are able to predict their future incomes better and then lower their saving rates. Despite China's economic growth, there are no signs that Chinese consumers have started to act in a similar way. Like in past, Chinese consumers are still very concerned about their financial stability and they don't spend more than they can afford. The lack of a robust social security program also explains why Chinese have one of the highest saving rates in the world (38% of earnings in 2010 according to Bloomberg BusinessWeek). Chinese are also keen to invest in real estate and fix their assets and savings on own house or apartment. It is expected that saving rates remain high in upcoming years as well and if Chinese consumers decide to spend more in certain matters then they typically trade down their consumption in other areas. (Atsmon et. al., 2010 & 2012)

The described behaviour pattern emphasizes the issue that Chinese consumers are among the most pragmatic consumers in the world and that their decisions, especially those related to their growing income, are very rational. Some might also highlight that such a behaviour pattern goes back to the Confucian values of thrift and frugality. Other factors that explain the Chinese behaviour, are needs to save for life-stage expenses such as home acquisition (which is almost a prerequisite for marriage), car purchase, children's education and savings for the retirement time. Because banks provide safe keep for their money plus opportunity to earn interest, it is no wonder that four of China's largest banks rank in the world's top ten. Notable insight related to the monetary matters is also Chinese behaviour around the special times of the year. For example during the Chinese New Year, which is the biggest and most popular festival of the year, consumption rockets and also large sums are given as gifts, especially to children. (Atsmon et. al., 2010; Chan et. al., 2013; McNeal & Yeh, 1997; Nielsen, 2011)

Consumer groups

Consumers could be divided into different groups according to several measurements, such as their income, educational background or family relations. Because each of these examples would serve only as a narrow view to the Chinese consumer base, it was chosen to focus on consumer according to

their age groups in 10-year deviations, which enables an overlapping study of all the mentioned characteristics in addition to many more insights, which provides a more universal picture about the Chinese consumers. In another point of view, consumers are also easier to categorize and imagine according to their age group. Importance of understanding the variance and fragmented nature of the Chinese consumer base as a whole is to gain an idea about different elements that influence the purchasing decisions of Chinese. Also as stated earlier, design knowledge strongly emphasizes consumer centric thinking and thus it is vital to acknowledge the roots, characters and wishes of consumers before starting business ventures.

According to United Nations 'World Population Prospects: The 2012 Revision', China's total population will be 1.432.865.000 people in the year 2020. In other words, there will be 73 million people more than compared to the population in the year 2010, which was 1.359.822.000. The development of Chinese consumer base can be observed from the following graphs, which represent the distribution of Chinese people in 2010 and 2020.

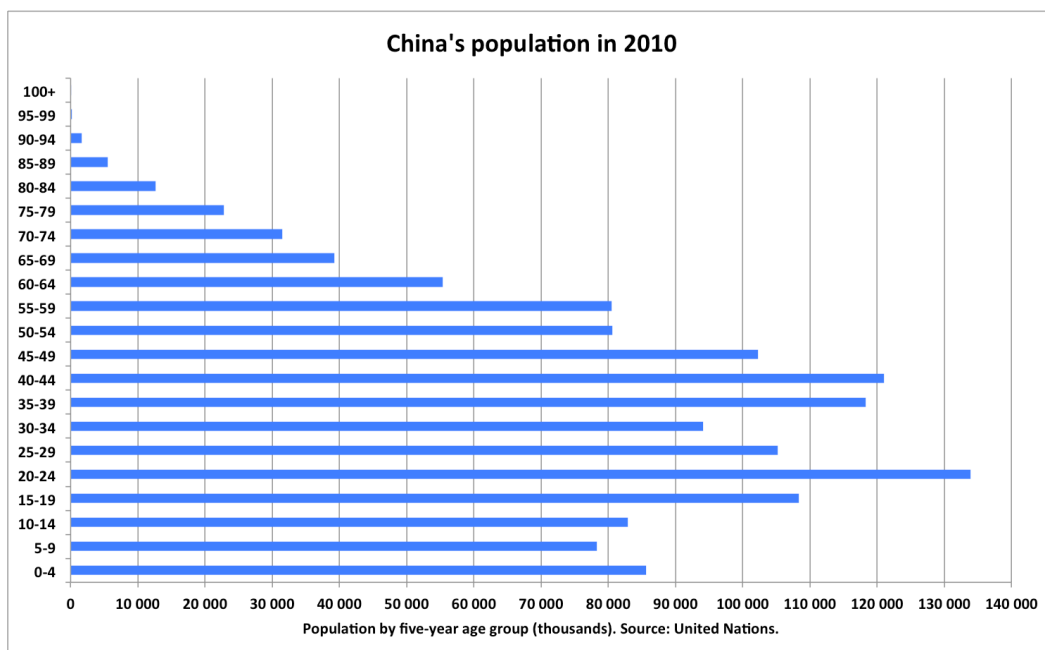


Figure 7. China's population in 2010. Source: United Nations, 2012.

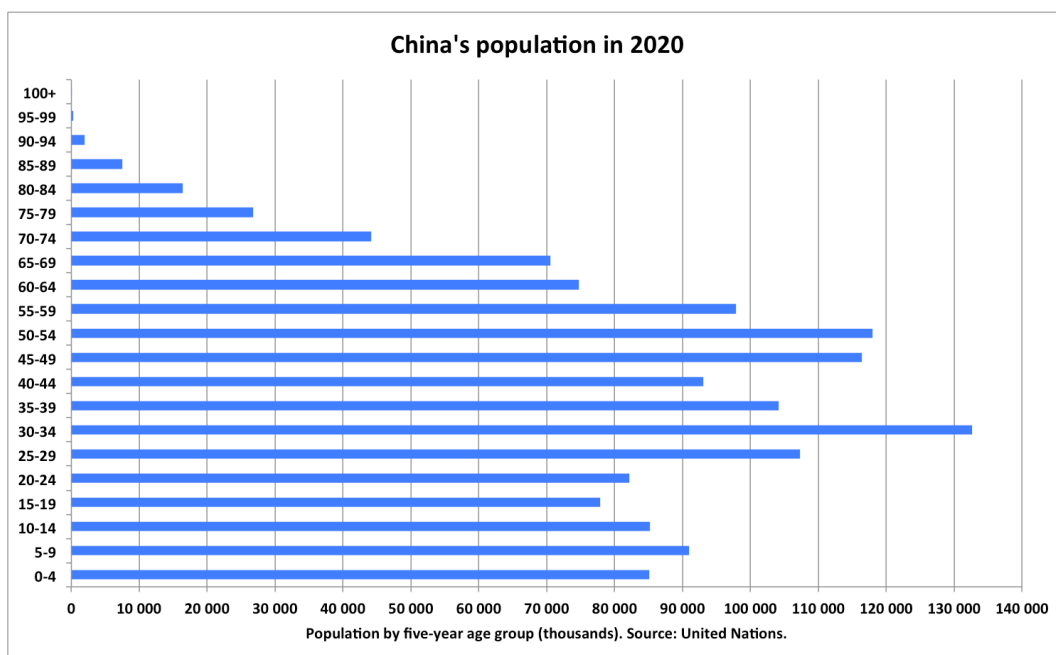


Figure 8. China's population in 2020. Source: United Nations, 2012.

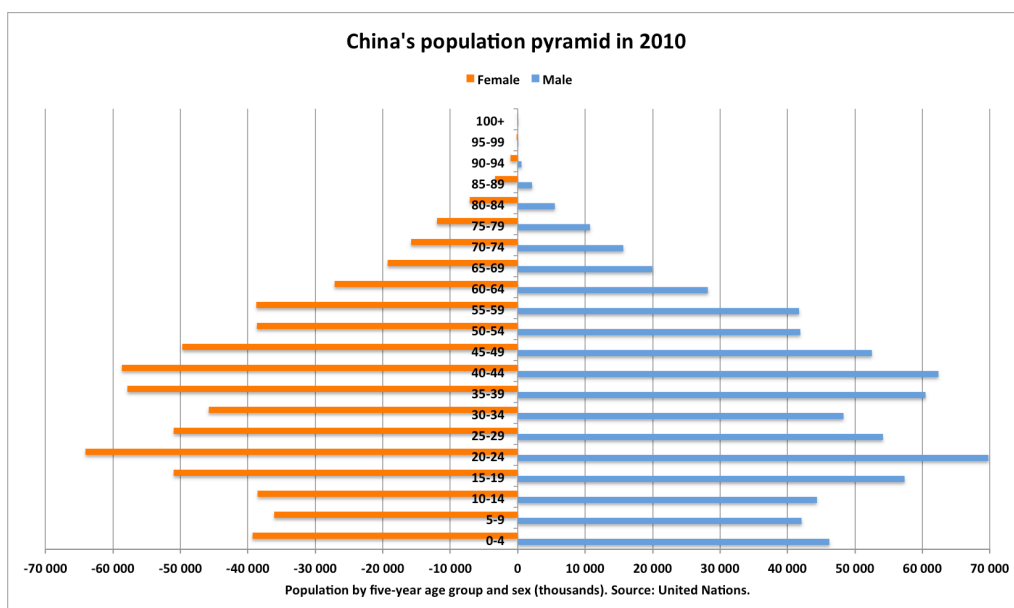


Figure 9. China's population pyramid in 2010. Source: United Nations, 2012.

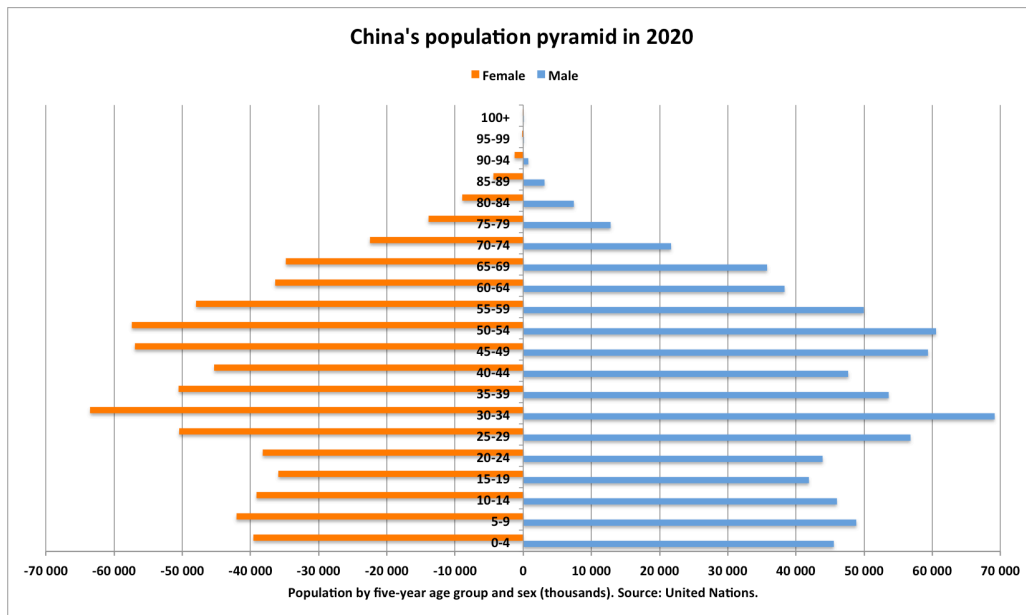


Figure 10. China's population pyramid in 2020. Source: United Nations, 2012.

The main observations of the graphs are the facts that China is facing a demographic change due to the ageing population and the issue of clearly bigger share of males in almost all age groups. According to United Nations data, it is expected that China has over 53 million more males in its total population by 2020. China's old-age dependency ratio (ratio that describes the relation between group that is and group that isn't part of the country's labour force) is also expected to increase in coming years and the forecasts presume that China will reach the current old-age dependency ratios of Norway and the Netherlands by 2030. In other words, China's working-age population starts to decline after 2015. The next subchapters will provide more in-depth insights of the key consumer groups, which are divided by decades when consumers have born. (Schellekens, 2013; The World Bank, 2013; United Nations, 2012)

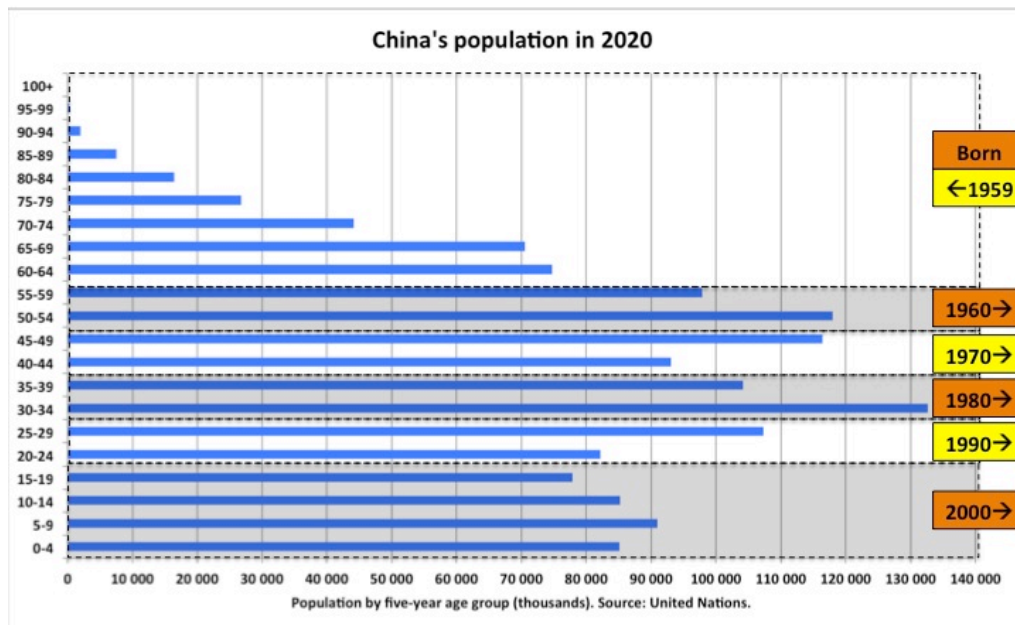


Figure 11. China's consumer groups according to birth year. Source: United Nations, 2012.

Born before 1959

United Nations forecast that the group of over 60 years old would contain over 242 million Chinese with 49,5% share of male and 50,5% share of female citizens in 2020. The oldest ones within the group have experienced the era of Republic of China, Chinese Civil war and the establishment People's Republic of China in 1949. The group has also lived through Mao Zedong's leadership and experienced periods such Great Leap Forward (1958 – 1961) and Cultural Revolution (1966 – 1976). The era of Mao has been one of the key factors, which has shaped the group's values and worldviews during their early adulthood. They are traditional, aware of possible crisis and somewhat resistant to westernizing environment even though they have benefitted from the booming economy but on the other hand their benefits are not as high as the ones for younger generations. Many of them have worked for government or at state-owned enterprises and because of their age, they don't face high pressures related to employment anymore. Over 60 years old are also frugal and they spend rather conservatively. Despite the current consumer behaviour the tendency to focus on savings or to forethought the consumption will probably be much less apparent in 2020. (Atsmon et. al., 2012; Borchardt et. al., 2011; United Nations, 2012; Qiu, 2011)

Born after 1960

United Nations forecast that the group between 50 – 59 years old would contain over 215 million Chinese with 51,2% share of male and 48,8% share of female citizens in 2020. Similarly as the group over 60 years, Chinese in their 50's have also faced a difficult environment during their early lives and certain periods have been very influential to them, for example the Cultural Revolution, which interrupted their education. The past has made the 50's frugal, sensitive toward price changes and conservative in their purchasing decisions such as the ones over 60 years. They have also high sense of crisis in addition that they are somewhat resistant to westernizing environment. Like over the 60's, most of the 50's have worked for government or at state-owned enterprises and they are not facing high pressures related to employment anymore. According to economists surveyed by Bloomberg News, China's compulsory retirement ages, which are now 50 for most women and 60 for men, will likely to be about five years higher in 2020, which indicates that the 50's would be at end of their careers and not yet retired. The 50's are expected to be open-minded and enjoy their mature life for example by traveling to domestic or international destinations. They are also more aware of their health and wellbeing and they accept the idea of care homes for the elderly. They don't expect their children to support them when they grow old and they are more willing to enhance their health for example by joining a seniors gym club, purchasing organic food and take medical check-ups regularly. The 50's are also expected to learn the use of online shopping possibilities and they favour to spend time with their grandchildren. (Atsmon et. al., 2012; Borchardt et. al., 2011; Bloomberg News, 2013; United Nations, 2012; Qiu, 2011)

Born after 1970

United Nations forecast that the group between 40 – 49 years old would contain over 209 million Chinese with 51,1% share of male and 48,9% share of female citizens in 2020. Chinese in their 40's are the last generation which has experienced the effects of Cultural Revolution. They had some hardship in their childhood but still they are the first ones who have received education after the Cultural Revolution and they have primarily benefited from the economic reforms started by Deng Xiaoping in 1976. Due to the economic reforms, major part of the 40's has also been better off than their older brothers and sisters. The 40's describe themselves as hard workers and they want to be recognized for their efforts. The 40's as well as the young 50's, who grew up during the Cultural Revolution (1966-76) and the first stages of the economic reforms, balances between tradition and new trends. Compared to jobs of the older

generations in governmental positions or in state-owned companies, the 40's work in different kinds of companies – from private to foreign-invested companies– and they earn same or slightly higher incomes. They are having only a moderate pressure in working life since they have typically reached status or level that is high enough for them. Their major concerns are related to job security and continuum of the on-going economic growth. In addition, they also stress about ageing, the health of their parents and the future of their kids. Today's 40's commonly save a large share of their earnings to take care of their children and parents but it is expected that in 2020 they would have fewer responsibilities and expenses, especially related to childcare. In 2020, Chinese consumers in their 40's are also expected to increase their spending on entertainment, home decor, groceries, travel, financial service, high-quality and healthcare products. They are seeking after quality hours with their family and thus they are willing to save time and they prefer online shopping or doing their purchases in stores that are close by. (Atsmon et. al., 2012; Borchardt et. al., 2011; United Nations, 2012; Qiu, 2011)

Born after 1980

United Nations forecast that the group between 30 – 39 years old would contain over 236 million Chinese with 51,8% share of male and 48,2% share of female citizens in 2020. Chinese in their 30's are the first generation, which has grown up under the one-child policy, which was established in 1979. The one-child policy restricts couples in urban areas to have only one child and allows families in rural areas to have two children only if the first child is a girl. The policy has shaped social behaviour and consumption patterns of the 30's and they have gained questionable nickname called 'Little Emperors'. The Little Emperor title refers to a situation where the whole family focuses on the single child and gives all their attention to him or her. The setting is also called the six pockets syndrome, because the "4-2-1" set-up, which includes four grandparents, two parents and one child. In western terms this generation is more likely spoiled than the generations before. However, the group of 30-34 years old will be the largest consumer group of the whole Chinese population in 2020 and in addition, they will become also the most important consumer group in 2020 because they are purchasing for their parents, children and themselves. (BBC News, 2013; McNeal & Yeh, 1997; United Nations, 2012; Qiu, 2011)

Furthermore, they have also very good financial capabilities since they enjoy financial support from their parents in addition to their own incomes. The 30's are saving less than older generations and they spend more on entertainment and experiences. They are also more eager to buy luxury products since they

prefer value of goods and the high price is not an obstacle for them. Still, price matters and they look after proper deals and maximum value for their money and therefore they use for example branded outlets. The 30's are self-confident, career orientated, prone to western culture and merchandize. They are well educated and they tend to have a high pressure related to work matters since they are competing against same aged as well as the younger ones in job markets. Chinese within this age group have also grown up in a more open and rather different environment than their parents. Because the 30's don't have siblings, they are more willing to spend time with their friends. They are also more modern what comes to Chinese traditions. They prefer renting apartments rather than buying and they don't want to get married before they have enjoyed their youth adulthood. Like for the 40's, online shopping also plays a big role in the 30's life in 2020. (Atsmon et. al., 2012; BBC News, 2013; Borchardt et. al., 2011; McNeal & Yeh, 1997; United Nations, 2012; Qiu, 2011)

Born after 1990

United Nations forecast that the group between 20 – 29 years old would contain over 189 million Chinese with 53,2% share of male and 46,8% share of female citizens in 2020. The 20's generation is the first one where effects of the one-child policy start to show as the imbalances between male and female. The 20's have born during the economic booms and they remember well the big international events in China such as Beijing Olympics in 2008 and the Shanghai World Expo in 2010. They are optimistic and confident by the nature as well as strong followers of westernized culture. The 20's are typically lately graduated and they start to enter job markets. Due to the lack of work experience and high competition among young talents, they are facing pressures related to getting a proper job. Before they start to earn their own money, their significant purchasing power relies on the generosity of their parents and relatives. (Atsmon et. al., 2012; Borchardt et. al., 2011; KPMG, 2013; McNeal & Yeh, 1997; United Nations, 2012; Qiu, 2011)

The 20's are blamed to spend most of their earnings and save very little unless they are saving for specific and costly purchases. The 20's are more willing to try new brands, as well as they tend to spend heavily on clothes and other goods that help distinguish their personalities. They can also be impulse buyers. The 20's are very tech savvy and they are more interested to buy advanced electronics and other new and trendy products than the older generations. The post-90s generation is also pioneer of researching information related to products and services from various digital channels such as social media sites, micro-blogs, direct websites and other messaging forums. They often conduct a

comprehensive research among multiple sources, including online and offline media and physical stores when they are shopping and they are typically after the best deal that they can find. Another important issue is that the technological savviness makes the 20's look like experts in eyes of elder generations and their recommendations and preferences influence over their individual spending capacity since they affect purchasing decisions of their family or elder acquaintances. (Atsmon et. al., 2012; Borchardt et. al., 2011; KPMG, 2013; McNeal & Yeh, 1997; United Nations, 2012; Qiu, 2011)

Born after 2000

United Nations forecast that the group under 20 years old would contain over 339 million Chinese with 53,8% share of male and 46,2% share of female citizens in 2020. Compared to the post-90s generation, the gap between shares of male and female is even higher in future China and there will be over 25 million more boys than girls. Generation under the age of 20 is born in digital era and they are familiarized to online shopping, smartphones and other modern technologies already in their early childhood. They are the most Westernized and open to new things. Most of them also consider consumption as a virtue. Under 20's often follow global trends from the Internet and they are more into individualism than the elder generations, which value collectivism. Under 20's don't typically earn any income but they can still have high savings and plenty of pocket money. Traditionally Chinese children receive monetary gifts from their parents, grandparents and relatives during special occasions; namely, Chinese New Year, Children's Day, Moon Festival, and on birthdays. The largest money gift that they commonly receive during the year is money called *hong bau*, which they get during the Chinese New Year celebrations. In addition to under 20's own consumption, they are also highly influential to purchasing decisions of their families. They also have a more optimistic view of the future and thus they are less concerned about saving for their old age and they favour purchasing the most expensive items they can afford to suit their lifestyle. Under 20's have also a lower level of product preference compared to the older consumers and they pay more attention to the visual appearance of products. In addition, it should also be acknowledged that children of migrant workers often spent their childhood with their grandparents in rural regions and thus their values and consumption patterns may vary heavily compared to children in high income families living in urban areas. (Borchardt et. al., 2011; McNeal & Yeh, 1996; Roland Berger, 2012; United Nations, 2012; Qiu, 2011)

Overlapping consumer groups

Sometimes the consumers' segmentation by their age group is not meaningful due to the overlapping issues and therefore important consumer groups, such as migrant workers and the rich, should also be taken into account when the Chinese consumer base is reviewed. Currently the amount of migrant workers in China is approximately 262 million (according to Bloomberg News) and typically the workers are 25-45 years old rural residents who have moved to urban regions in search for jobs. Their consumer behaviour can be even more frugal than the behaviour with older generations since they tend to buy only the necessities. Another key element is migrant workers' manner to save money and send remittances to their families in rural areas. The manner also highlights how migrant workers affect the consumer behaviour of their parents and children in rural areas because the remittances from migrants are their main revenue source. It is estimated that four-fifths of China's migrant worker parents, about 157 million mothers and fathers, are separated from their children and such a setting will definitely affect also both, parents and children, consumption patterns. Nevertheless, it is projected that the income of migrant workers will rise significantly in the coming years and that many of them move their families to the cities in the future. For example the latest plans to enhance the Hukou system (household registration system) will likely speed up this phenomena. For manufactures the stated scenario would mean growth on groceries market by 2020, once more migrant workers are permanently integrated into urban cities. Nonetheless migrants' consumption levels won't probably match to their urban peers in the future. (Bloomberg News 2014; Qiu, 2011)

Almost total opposite to migrants is the group of rich Chinese. According to the 2013 Forbes China Rich List (Jing, 2013), the number of billionaires, those with a personal fortune exceeding \$1 billion each, hit a new record with 168 persons in year 2013. The amount of rich Chinese is increasing rapidly and as a one indicator, ten years ago (in 2003) when the Forbes China Rich List was published for the first time, there was only one person with a fortune estimated at \$1 billion. Also according to Knight Frank LLP's report (Chen, 2014), China will have 14,213 ultra-wealthy individuals who own more than \$30 million in net assets excluding their main residence by the year 2023. Joint report by McKinsey & Company and Minsheng Banking (McMahon, 2012) stated that the number of China's high net worth individuals (HNWI), or in other words the ones who have more than \$1 million to invest, has increased 15% annually from the year 2010 and the report forecasted that the amount of HNWI will be 1.9 million in 2015. If the growth rate remains the same in coming years, there

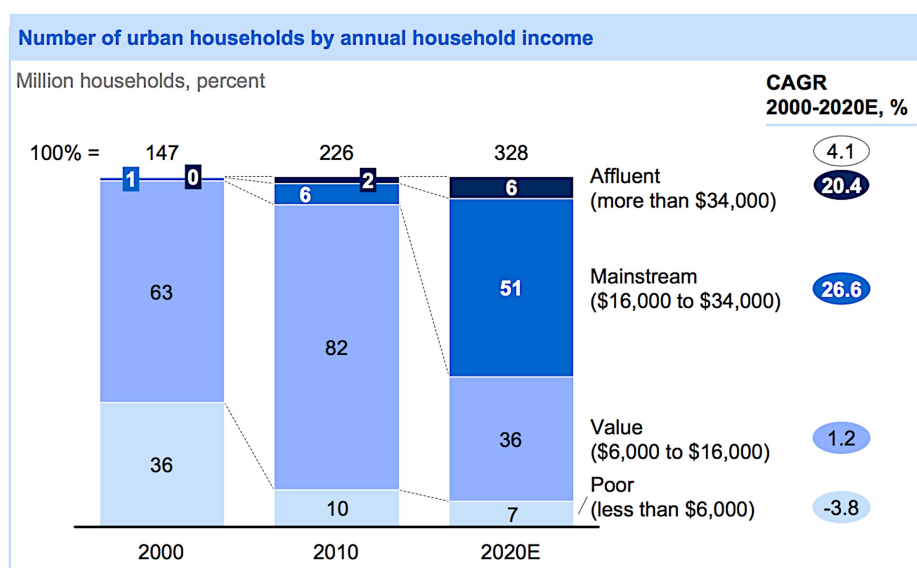
would be approximately 3.5 million HNWI in China by 2020. The representatives of the group of rich consumers are commonly between ages 20-60 even though the most of HNWI's are males, between ages 40-60, who are mainly entrepreneurs or corporate executives in private owned companies. Common feature to describe these rich consumers is their location nearby large urban areas, especially in cities such as Beijing, Guangdong and Shanghai, where about half of this group is living. Another feature is their tendency to purchase the best products available and particularly imported products, which then make them ideal candidates for foreign companies to market and pilot their new products. However, currently the growing trend within the rich Chinese is to emigrate away from China and invest their assets abroad. This indicates to another possible scenario in which the number of rich Chinese is decreased significantly by the year 2020. (Chen, 2014; Jing, 2013; Ma, 2014; McMahon, 2012; McKinsey China, 2012; Yu, 2012; Qiu, 2011)

Nevertheless, according to McKinsey & Company's forecasts (Atsmon et. al., 2012), the number of affluent consumers will make up only 6% of the urban population by the year 2020. In another terms, it will mean 21 million affluent households and altogether 60 million consumers. Despite the affluent consumers, the most important overlapping consumer group in coming years will be the mainstream consumers (See figure 12). The mainstream consumer group consist of different age groups and their total amount is expected to be 167 million households or close to 400 million people in 2020. In other words, they will share 51% of the urban population. They are relatively well-off consumers with annual household disposable income between \$16,000 and \$34,000, which is equivalent to income between RMB106,000 to RMB229,000 in a year. Compared to Finland's annual household disposable income in 2011, which was about \$28,000, it is easier to understand the significance of this consumer group. Mainstream consumers are ready and willing to upgrade their living standard and wellbeing, which reflects to purchases such as family cars and small luxury items that they haven't afford before. In addition, they are also after the better-quality products and other products that have been out of their reach due to the monetary issues. These facts make them as one of the most interesting consumer segments to target in 2020. The currently dominant group of value consumers will also standout with 36% share of annual urban household income but their consumer preferences doesn't vary so significantly compared to the group of mainstream consumers. For group of value consumers, their most outstanding feature is to keep the demand up for cheaper products in 2020. (Atsmon et. al., 2012; OECD, 2013)

Exhibit 2

Rise of the mainstream consumer

URBAN CHINA



SOURCE: McKinsey Insights China – Macroeconomic model update (March 2011)

Figure 12. Rise of mainstream consumer. Source: Atsmon et. al., 2012, p. 14.

8 Fragmented nature of Chinese market

Diversity of the market

The nature and environment of Chinese market is anything but uniform and therefore it is important to be aware of the huge diversity that China gathers inside its borders. The purpose of this chapter is to highlight these important market characteristics and issues through explorative analysis. The idea is to generate broad overview of current and upcoming market environment, and the aim is to share valuable information on where to start the navigation processes towards future China. For example, if the Chinese consumer base is considered, an imaginary Aihui–Tengchong line, which roughly divides China’s territory diagonally into two almost equally sized parts, shows how unbalanced the distribution of Chinese population is. The Aihui–Tengchong line (also known as The Heihe–Tengchong Line) starts from the town of Aihui in the northeast province of Heilongjiang and ends to Tengchong in the southwest province of Yunnan. According to 2002 statistics, 6% of Chinese population lives in the western side of the line and the rest 94% of the population lives in the eastern side. The population density in dry and mountainous west side is only 11 people per square kilometre, which is approximately one-quarter of the world’s average. Compared to more water abundant and lower altitude east side, the population density is much more – 260 people per square kilometre, which is about six times the world’s average population density. (Naughton, 2007)

Even though the statistics are from 2002, the setting in 2020 won’t probably change significantly thus the great majority of Chinese population lives already in the western side and close to the most developed Chinese cities. The Chinese regional population development between 2000 and 2010, which was presented in U.S. Commercial Service’s report in 2013, also supports the stated scenario (See figure 14). In addition, the Economist newspaper (2010) published a comparison between the Chinese population’s regional distributions to counterparts in foreign countries, which gives a more clear idea of regional differences within the Chinese population (See figure 15). (Naughton, 2007; The Economist, 2011; U.S. Commercial Service, 2013)

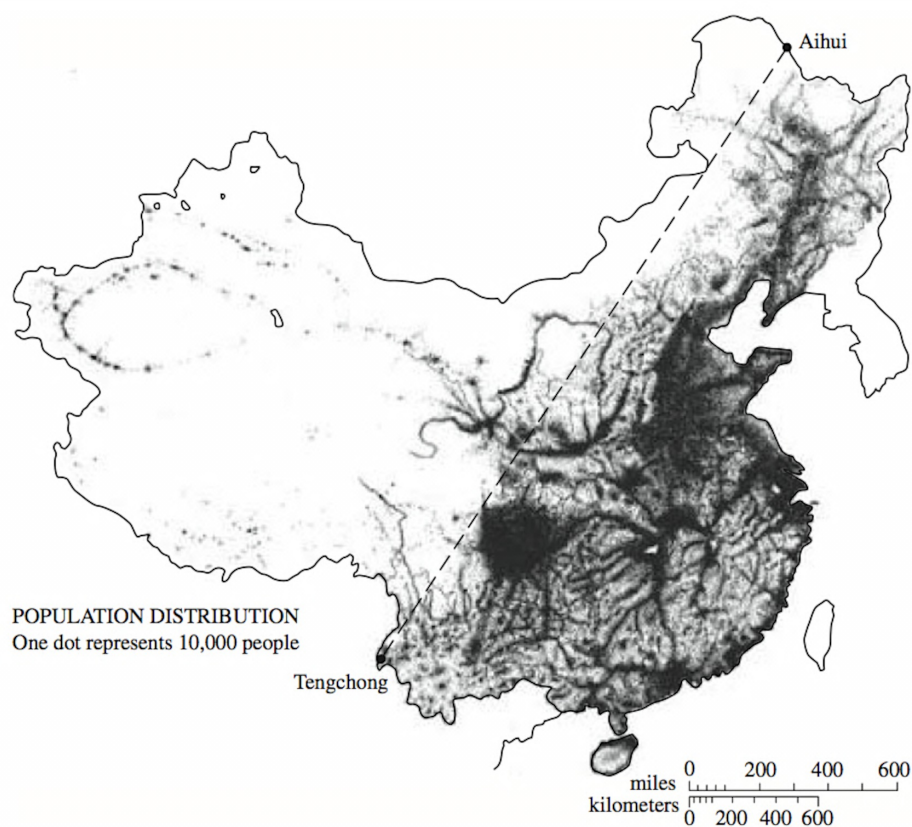


Figure 1.1
Population distribution representing 10,000 people and the Aihui-Tengchong line

Figure 13. Aihui-Tengchong line. Source: Naughton, 2007, p. 19.

Province Population Growth 2000 to 2010

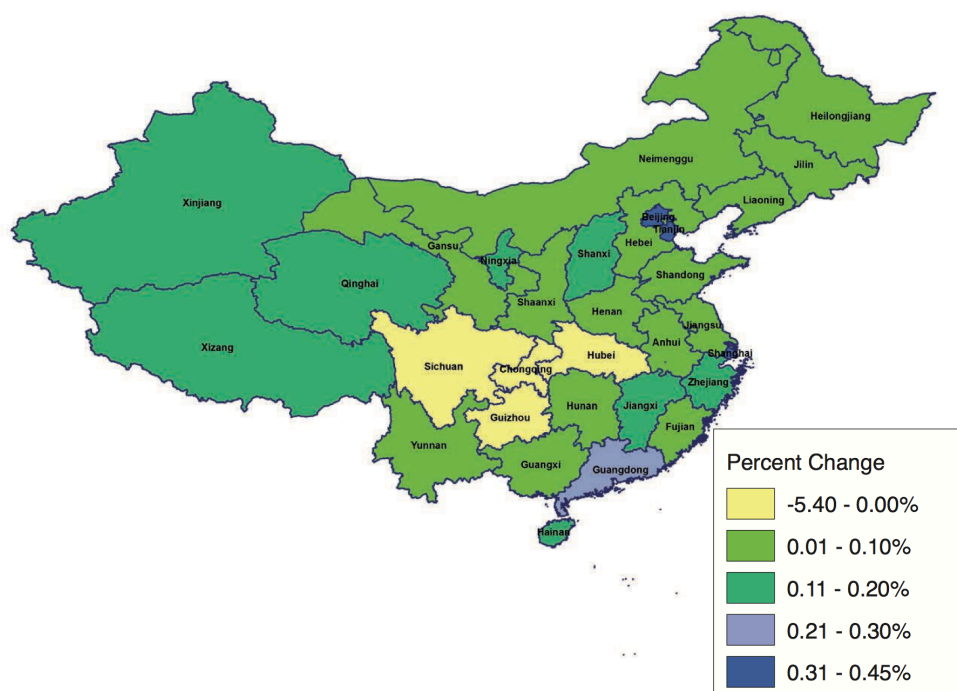


Figure 14. China's Province Population Growth 2000 to 2010. Source: U.S. Commercial Service, 2013, p. 30.



Figure 15. Chinese population equivalents in 2010. Source: The Economist, 2011.

When China's official administrative divisions are examined, it can be noticed that China has altogether 34 provincial-level administrative regions, including 23 provinces (the amount is 22, if Taiwan is not included as China's province), 5 autonomous regions (Xinjiang, Inner Mongolia, Tibet, Ningxia & Guangxi), 4 municipalities (Beijing, Tianjin, Shanghai & Chongqing) and 2 special administrative regions (Hong Kong & Macao), which all have their own special characteristics (See figure 16). To illustrate the significant economic differences within the regions, a good example is the Economist newspaper comparison from the year 2011. It compared to Chinese region's GDP and GDP per person rates to the nearest rates in the most equivalent foreign countries (See figures 17 & 18). Another good example to describe regional difference, particularly from the point of view of consumption, was presented in U.S. Commercial Service's graph (2013) that showed the difference in the provincial retail sales of consumer goods in 2011 (See figure 19). To conclude the key finding of the figures, it can be seen that the Chinese market is focused primarily on the eastern coastal area but since the China's economic growth is expected to continue, the future focus will likely change from east coast towards west and

best growth opportunities for new ventures can be found in inland regions by the year 2020. (Naughton, 2007; The Central People's Government of The People's Republic of China, 2005; The Economist, 2011; U.S. Commercial Service, 2013)



Figure 1.3

China's provinces. Includes provinces, autonomous regions, and municipalities with provincial rank. SAR, Special Administrative Region

Figure 16. China's Provinces. Source: Naughton, 2007, p. 23.



Figure 17. Chinese GDP equivalents in 2010. Source: The Economist, 2011.

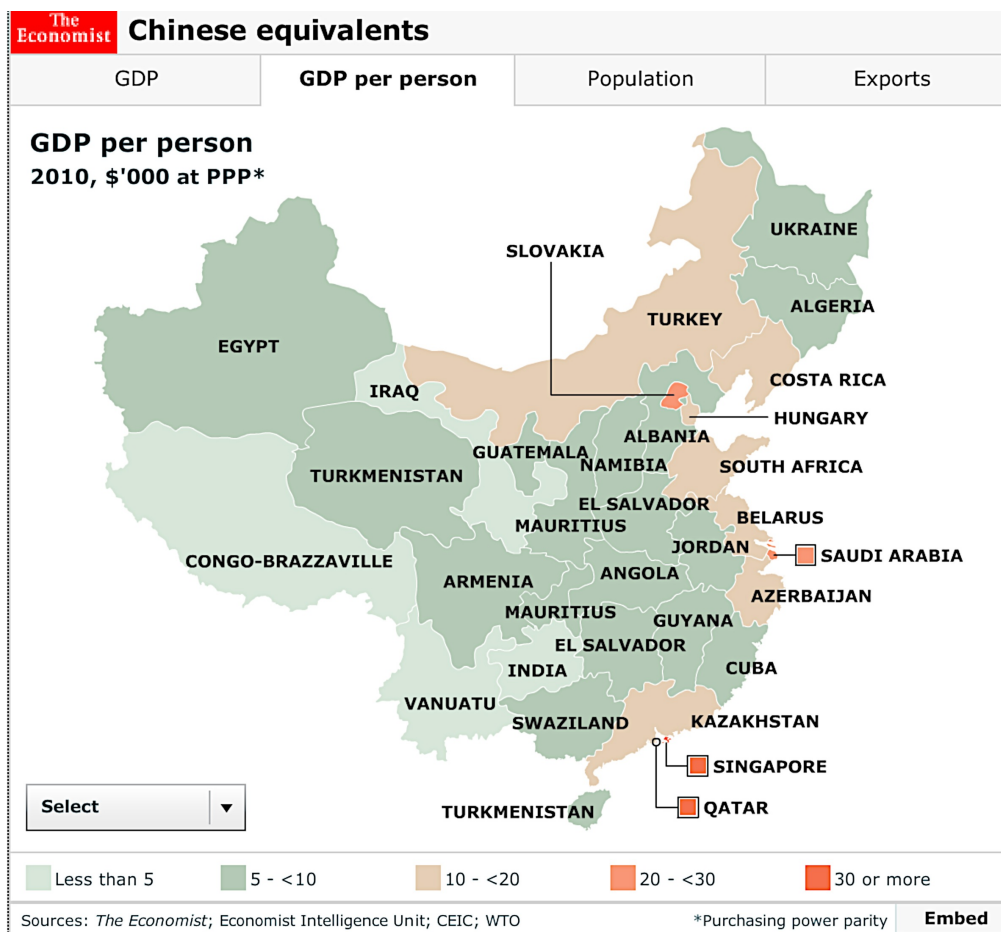


Figure 18. Chinese GDP per person equivalents in 2010. Source: The Economist, 2011.

Province Retail Sales of Consumer Goods 2011

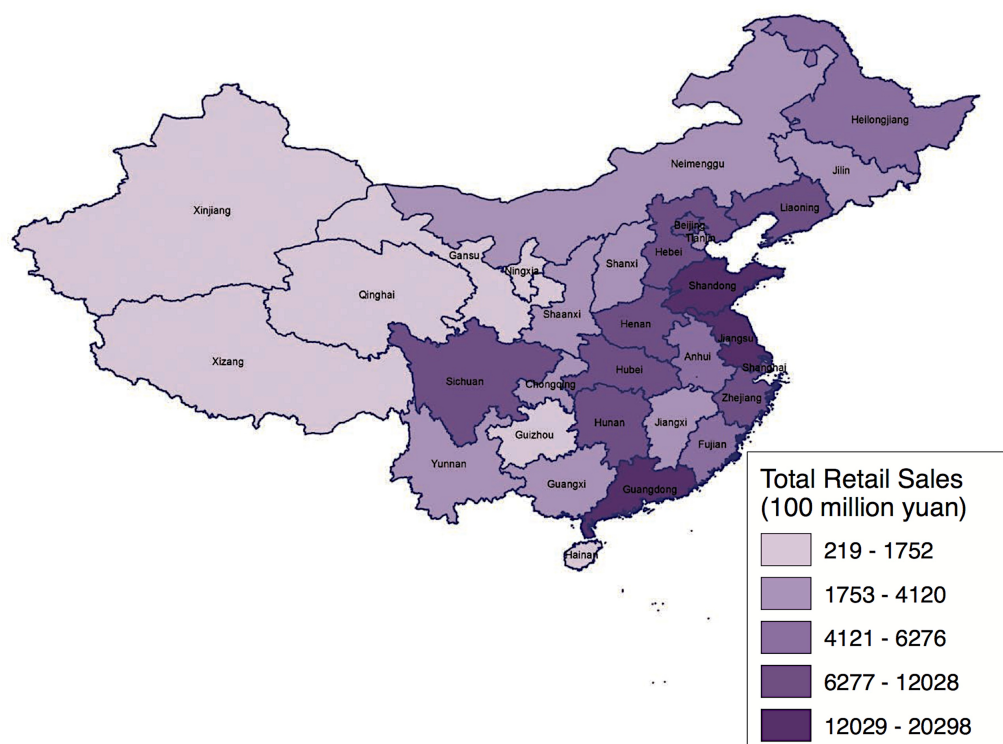
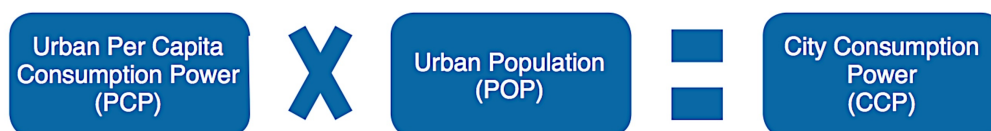


Figure 19. China's Retail Sales of Consumer Goods 2011.

Tier segmentation

Nevertheless, it is rather hard to understand the Chinese market characteristics if the market segmentation is done by using the administrative divisions alone since each of the provincial-level administrative regions contain lots of different types of cities, including provincial-status cities, sub-provincial cities, provincial capitals and prefectural cities (other than provincial capitals). These cities typically have big differences in economic development, location, living standards, urbanization rate and population growth, and thus the Chinese consumer market is commonly categorized by “Tier” segmentation. Despite the variety of methods that have been used to categorize cities into Tiers, the most common division is the five-stage segmentation where mega cities are ranked as Tier 1, province municipal cities as Tier 2, prefectural level cities as Tier 3, county level cities as Tier 4 and, towns and villages as Tier 5. Sometimes the segmentation is also stretched as a seven-stage model and then the first four Tiers remain the same but the last three Tiers change so that Tier 5 indicates counties, Tier 6 townships and Tier 7 villages. U.S. Commercial Service (2013) report summarized the economic characteristics of different Tiers by calculating City Consumption Power (“CCP”) index for different cities under the five-stage Tier segmentation. The City Consumption Power was calculated by multiplying Urban Per Capita Consumption Power by urban population. Data for Urban Per Capita Consumption Power (PCP) was combined from the following indicators: urban population, GDP, total retail sales of consumer goods, urban per capita disposable income, consumption expenditure, etc. The table (See figure 20) recaps properly the key numbers of the current setting but as stated earlier, due the on-going economic growth, the importance of lower Tier level cities will increase steadily by year 2020. (Huang, et. al., 2012; Sinclair, 2010; U.S. Commercial Service, 2013)



Using this index, cities can be segmented into the different tiers as follows.

Characteristics of City Consumption Power Tiers							
CCP Tier	CCP Tier	Description	Number of Cities	% Urban Population	Average Urban Population ('000)	Total CCP (billion RMB)	Per Capita Consumption (RMB)
1	1a	CCP> 300 billion (BJ, SH, GZ, SZ)	4	84%	13,052	1,620	31,031
	1b	CCP>50 billion, vice province city or above	18	79%	4,263	1,907	24,846
2	2a	CCP>15 billion, or other vice province city	30	67%	1,887	1,306	23,080
	2b	CCP>10 billion	39	77%	1,044	821	20,166
3	3a	CCP>6 billion	67	69%	708	777	16,390
	3b	CCP>3 billion	104	54%	447	710	15,270
4	4a	CCP>1 billion, or other district city	168	44%	307	627	12,178
	4b	Other county city	227	41%	244	437	7,889
5	5a	City Population >150 thousand county	445	27%	176		
	5b	Other county	1,195	21%	60		

Figure 20 . Characteristics of City Consumption Power Tiers. Source: U.S. Commercial Service, 2013, p. 34.

Opportunities throughout urbanization

Some of the biggest market opportunities in future China are in the fast growing urban regions. The expected 60% urbanization rate by 2018 and over 60% rate in 2020 will mean a huge consumer shift from rural areas to urban regions. Plans to reform the Hukou system, for example, speed up the stated change because it would allow rural residents to move officially to smaller urban centres. Another issue that affects the change is the aim to give greater land rights to farmers, which would enable farmers to rent or sell their lands and so gain better financial resources. The better financial capabilities help them to seek modernized living conditions from the urban districts. Furthermore, if the growth in urbanization rate by 2020 is considered to be very moderate, the 6%

growth rate from the rate of 54% in 2013 to 60% in 2020 will still mean over 80 million new consumers in urban regions and to put the number in perspective, it is approximately as high as the whole Germany's 81.89 million population in 2012. The 60% share out of the forecasted total population of 1,4 billion would also indicate over 859 million urban Chinese in 2020. (China Daily, 2013; The World Bank, 2014; United Nations, 2012; Wharton University of Pennsylvania 2013)

Without underestimating the importance of Tier 1 cities, it should be understood that lower Tier cities would provide better opportunities for new ventures in coming years since the markets in Tier 1 cities are already quite mature. The living standards, infrastructure and business environment in lower Tier cities is developing rapidly and these cities will definitely serve an enormous market potential in the future. China's economic growth has already led to a state where more than 50 cities have a per capita GDP over \$10,000 and it projects the fact that China's consumer base will be much more fragmented geographically than ever before. The role of lower Tier cities will keep on rising and, for example, according to Global Trade Atlas statistics (Craig & Qiang, 2010), US imports' year-on-year growth in Tier 3 city (prefectural level city), Hefei, increased 164% in 2010, which is remarkable rate compared, for example, Tier 1 city, Beijing, where the growth was only 19% during the same period. Moreover, many of the Tier 2 cities have even become wealthier than Tier 1 cities. Tier 2 cities such as Wuxi and Suzhou are now among China's richest cities measured by GDP per capita and they are growing with annual speed of 10% meanwhile growth rate in Shanghai, Tier 1 city, remains below 8%. (Farr, 2014)

The example reflect phenomena where the demand of goods and services, which have been privilege only to advanced markets before, remains high as long as the premature markets reach the state of full maturity. Still, it will take several years until the lower Tier cities reach the state of full maturity, or the same status as the Tier 1 cities have now, and when the demand of new goods and services increase. It also needs to be acknowledged that despite the great possibilities it takes time to research and understand the trends and complexity of lower Tier markets and commonly the competition is highly intense and abundant despite the possible prematurity of markets. (Craig & Qiang, 2010; Farr, 2014)

The fast development pace is the main reason why the market setting in lower Tier cities is hard to forecast but despite the challenging future prediction it is sure that "first comes and first served" rule exists as well in the setting related to the lower Tier cities and the first-mover advantage is really valuable since it

can take years to build a trusted brand. Currently international competition in the lower Tier markets is marginal and often the domestic competition is less sophisticated. However the domestic players often gain better advantage against international players with their local knowledge, which is warmly welcomed in complex market environment.

Companies can choose from different approaches to enter into the rising markets. Accenture's report (Huang et. al., 2012, p.3) presented three considerable market entry strategies to companies with following key initiatives:

- *“**Advanced Pioneers**” pursue expansion aggressively and invest significant capital and resources over a period of years to build rural market share.*
- *“**Explorers**” prefer not to invest huge sums at the launch of their offensive; rather, they take a more cautious approach and learn from their initial forays to determine their next investment strategies and tactics.*
- *“**Observers**” defend or build their geographic presence by taking advantage of the growing number of modern trade venues such as hypermarkets, supermarkets and branded retail chains. The challenge for “Observers” and any other type of business looking to distinguish itself in the modern trade arena is that China’s Tier 3 and Tier 4 consumers (and, especially, the rural consumers in Tier 5 villages and towns) are fiercely loyal to traditional trade venues. Any successful expansion strategy, therefore, will need to carefully pursue modern trade opportunities without abandoning the “mom-and-pop” store channel that is—and will continue to be—so vitally important to consumers in many parts of China and an integral part of rural life.”*

The stated three strategies illustrate well options that companies have for conquering the lower Tier markets but in addition, companies should also consider the market entry from geographic point of view. As China will continue to enhance its industrial clusters, the importance of regional hubs of excellence will stand out significantly also in global terms by the year 2020. For example Xi'an region's focus on aviation and aerospace or Nanjing's focus on automotive industry will reflect in an increased knowledge also in their close by cities. This is an important aspect if a company is looking after certain know-how, for example in subcontractor matters or employees with specific skillset from lower Tier cities. Entering first to regional hubs before targeting nearby cities with lower Tiers is also recommended strategy since it provides as well many benefits to companies such as modern and fast transportation possibilities

to other hubs, broad supply chain networks and large pools of consumers and talented human resources. (Farr, 2014; Huang et. al., 2012)

Typically companies need to develop multiple marketing, sales and service channels to perform and operate effectively in Chinese markets. The reason for multi-layer approaches roots in the fragmented nature of markets and thus the markets in lower Tiers are as well in a premature stage, it gives extra twist and great challenge for companies to create a viable multi-channel management strategy before entering the markets. Companies have to study carefully all the options since the costs of trading operations can take a major slice out from the trade returns. Chinese market is composed of many small and medium-sized retailers and companies have a wide range of alternatives on how to organize their sales. For example in distribution strategies, companies can choose from direct to consumer sales to one-, two- or multi-layer distribution models where the costs and significance of middlemen vary much. The usage of one-, two- or multi-layer distribution models might still be highly beneficial since the knowledge of local trading partners can provide valuable help to enter markets, especially in lower Tiers, even though they add expenses and make distribution network more complex. In addition, despite the growing importance and popularity of online sales plus e- and m-commerce, it could be argued that traditional sales increase its popularity in the future because the amount of local stores is expected to rise in developing cities. The scenario is also supported by facts that when consumers in lower Tier cities can reach diverse shopping channels and retail formats in their cities, they don't have to shop online if they can purchase similar products offline. (Lu, 2010; Neumann et. al., 2012; Roland Berger, 2012)

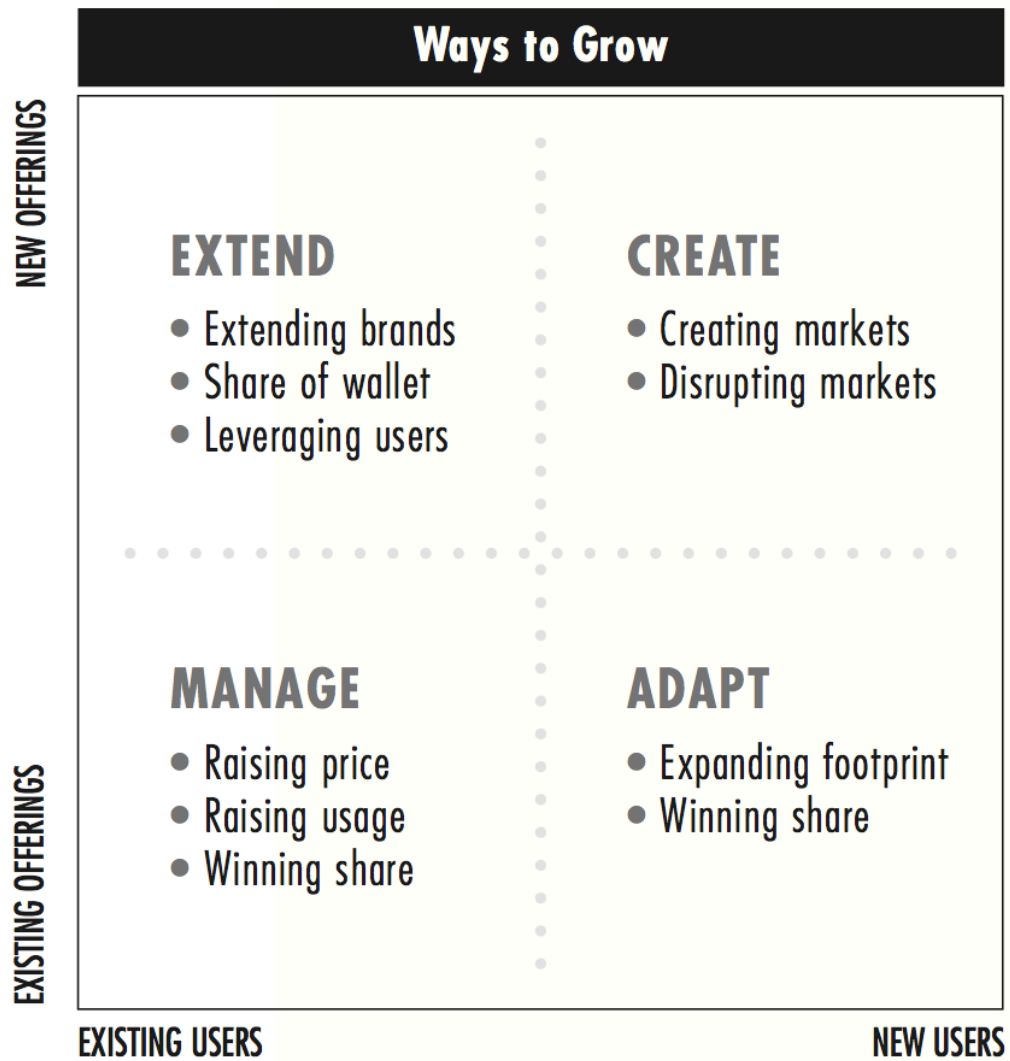
9 Design knowledge as a driver of success

Strategic basis and roots for design approaches

As stated in the beginning of the thesis, the purpose of the study is to gain holistic understanding of Chinese future prospects and unfold the benefits and value of design knowledge. Once the Chinese aspects are now elaborated it is time to focus on the benefits of design knowledge and therefore this chapter will provide a broad overlook to design knowledge in addition to two case studies, which highlight the value of design knowledge also in Chinese context. However, to understand better the purpose and origin of using the design knowledge, it is good to start with acknowledging the strategic basis of innovative companies. Hamel (1996, p. 69) categorizes companies into three groups by dividing companies into rule makers, rule takers and rule breakers. Rule maker refers to companies, such as Coca Cola, Walt Disney and Boeing, which have created the basis and directions for certain industry. They have a leading status within the industry and their position can be described as oligarchy. Rule takers are the ones who follow and respect the rules set by rule makers. Rule takers group contain numerous amounts of companies, typically small- or middle-sized companies, which struggle to achieve better position in tense competition mastered by rule makers or rule breakers. Rule breakers, such as Red Bull, IKEA and Apple, are companies who have created totally new setting and rules for industry. Their revolutionary and radical business ideas have facilitated their special advantages and high rankings in global competition. (Hamel, 1996)

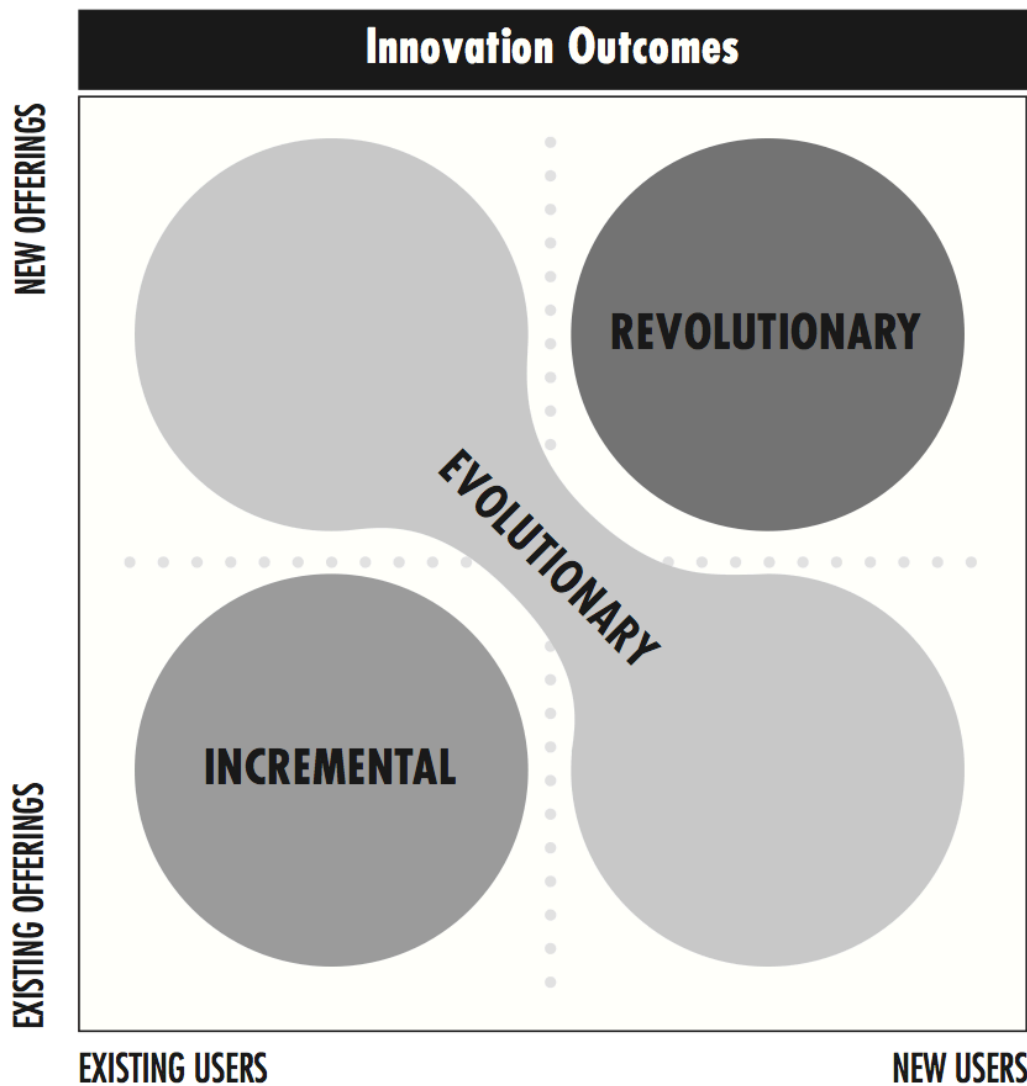
In other words, rule breaker companies can also be described as innovative companies, which have acknowledged the power of using creative approaches in their business ventures. The Booz & Company's joint report (Veldhoen et. al., 2012, p. 4) separates the fundamentals of innovative companies, according to *Global Innovation 1000* study (Jaruzelski et. al., 2011), into three groups: Need seekers, Market readers and Technology drivers. Need seekers are first movers in the markets. They proactively explore the present, and reveal unarticulated, needs of customers and use the studied characteristics to shape new products and services. Market readers are second movers who focus on incremental improvements in already accessible products and services. Their efforts start from the markets, since they create value through incremental changes, and they pay equal focus on their customers and competitors. Technology drivers are the ones who present new technological achievements. They realize both breakthrough and incremental changes but typically they lack the direct contact with customers. (Veldhoen et. al., 2012)

Jacoby and Rodriguez (2007, p. 10-15) also share knowledge on of how to become an innovative company in their article. The guidelines presented by authors rely on design thinking and they emphasize the human-centred approach in the aims of achieving growth. The main takeaway from their article is, however, the matrix tool, which proposes four strategies (See figure 21), by how companies can develop their business. The idea is to identify at first what kind of growth the companies are looking for and then on think through the strategy on how to achieve the stated goal. The Manage strategy, which focuses on raising prices or amount of usage, provides the lowest effect from the innovation point of view (See figure 22). The Extend and Adapt strategies, which target on new offerings or new users, provide already better growth possibilities than the Manage strategy but from all the illustrated strategies, the best growth prospects are still in the Create strategy, which focuses on the new market creation. (Jacoby & Rodriguez, 2007)



Understand the relationship between your growth intention and the innovation outcome you are seeking. Incremental, evolutionary, and revolutionary outcomes require different approaches and expectations for results.

Figure 21. Ways to grow. Source: Jacoby & Rodriguez, 2007, p. 12.



Organic growth can emerge from every quadrant of Ways to Grow. Use this tool to a) identify the type of growth you intend to create, b) to recognize the scope of that challenge and deploy an appropriate innovation process, and c) to assess your portfolio of innovation efforts.

Figure 22. Innovation outcomes. Source: Jacoby & Rodriguez, 2007, p. 14.

When projecting the stated models into the setting where Finnish companies are entering into Chinese markets for the very first time, it can be argued that better opportunities exist when companies identify themselves as rule breakers or innovative companies since then they will have a special advantage to compete against existing competitors in Chinese markets. Furthermore, Wu et. al. (2010) presented in their paper a case study, which compares the success of Taobao (Chinese C2C online trading platform technology) against the multinational incumbent eBay, which entered China in 2002. Taobao was established in 2003 and then it achieved only 7.8% market share against eBay's

72.4%, but already in 2005, Taobao had managed to increase its market share to 58.6% whereas eBay's share dropped to 36.4% (Wu et. al., 2010, p. 58).

The reason for the success is explained in the paper by the Taobao's ability to response to local demand quickly as well as its advantage relies on local savvy. In other words, Taobao managed to bypass eBay by following Market reader strategy since it overcame eBay's first-mover advantage by understanding and shaping its product to fit the needs of Chinese users. The paper shares also an another important point: *"Emerging businesses with disruptive technologies may scale up earlier and faster in emerging economies' mass market than those commercialized in advanced economies' mainstream market ... Due to multinational incumbents' trap of over serving for mainstream customers in advanced economies, latecomer firms can create and capture value from disruptive technologies in emerging economies through secondary business-model innovation: changing the existing competition basis and tailoring the original business model to fit price-sensitive mass customers"* (Wu et. al., 2010, p. 60), which highlight the significance of understanding the market environment instead of obdurately implementing company's existing business model into China.

When the market entry strategy is studied through Jacoby and Rodriguez's matrix tool, it can be pointed out that Finnish companies have different options to follow once they are willing to increase their business. According to the matrix and situation where Finnish companies are aiming to the Chinese markets as newcomers, Finns are more likely locating themselves in sectors where they face new customers (Chinese), in addition that they have a chance to provide their offerings to this fresh customer group. However, as the previous Taobao case showed, it is too early to expect evolutionary or revolutionary outcomes if companies don't truly understand the market environment and particularly the core of the market – Chinese consumer. This is the point where the use of design knowledge steps in because with the help of design mind-set, tools and frameworks, companies can benefit from human-centred strategies and overcome the complexity of Chinese markets. The design knowledge also supports the creation of products and services, which are truly innovative and game changers in the future markets. But to sum up the key initiative, design mentality begins by encouraging companies to start from the unknown since that's the thing what growth really requires. (Jacoby & Rodriguez, 2007; Liedtka & Ogilvie, 2011; Veldhoen et. al., 2012)

Open-minded organization supports the creation of innovative ideas

The first implementation of design knowledge is to start with studying company's working habits and organization structure. A common misunderstanding is that only designers or creative persons can create the breakthrough ideas (Brown, 2008a, p. 4). The roots from this false belief typically come from companies' organization structures where employees are used to work in silos and they are not encouraged to be creative in other departments, such as finance or logistics. Processes, systems and roles are precisely segmented and the creatives task is to come up with light bulb moments when management teams focus on understanding the clients and the brand. Design knowledge renews the stated mentality and claims that anyone can create brilliant ideas and help a company to success better, despite the position of organization. Tim Brown brought up the same issue in his TED Talk (2008b) by expressing a typical problem inside the companies where employees are self-editing their ideas, due to the fear of peer reviews and situations of being "wrong" in the eyes of their colleagues, and thus not sharing their ideas out loud. This kind of behaviour and analytical way of thinking lacks the creativity within the companies and Brown suggest (2008b) that instead of "adult like" brainstorming sessions, where ideas are already moderated and analysed in person's minds before sharing, companies should arrange "child like" sessions where attendants have fun and they feel relaxed, secure and confident to share all the wildest ideas to others without any editing, criticism or censorship beforehand. The "child like" approach supports creation of genuinely innovative ideas since it allows free flow of imagination and an intuitive way of using person's inspiration assets. (Brown, 2008a & 2008b; Kelley, 2012; Trezona, 2011)

Think outside the box

Another aspect that slows down the exploration of breakthrough ideas is the typical straightforward or linear problem-solving process where the first step is to define a problem, then secondly identifying various solutions and analysing each of them, and finally choosing one – the best one – solution. This highly analytical and traditional approach doesn't leave room for errors despite the fact that errors are human. Conversely, the design knowledge views the problem-solving process from very different angle. The best phrases to describe the design-based approaches are "learn by doing" and "practise-based learning" (Koria et. al., 2011, p. 5), or in other words; "trial and error – fail fast and

succeed faster” which all underline the “hands-on” and practical mentality, where analytics are taken as a supportive – not the main – part of the process. The experimental and iterative way of problem solving also advantages over the traditional problem-solving process since it allows various solutions instead of only one solution, which is considered as the right one due to analytical evidences. Design highlights the “out of the box” thinking and inspires to realize problems holistically with a 360-degree angle on issues. The aim is also to see what lies behind the problems, challenge the given problems and find new opportunities through the stated problems. (Brown, 2008a; Koria et. al., 2011; Liedtka & Ogilvie, 2011)

Benefits of cross-cultural and multidisciplinary actions

While generating new ideas for Chinese markets, Finns benefit also from mental distance (Kelley, 2012, 5min35s), because different culture, habits and language enable Finns to observe Chinese consumers from an objective level, which then on provides enormous pool of inspiration. However, if Finnish companies proceed only with observation tactic, where detected market demand is fulfilled, there is a major risk of ending up to a pitfall where true needs and emotional aspects of Chinese consumers are not satisfied. For this issue, design knowledge calls for establishment of cross-cultural co-operation where Sino-Finnish stakeholders form multi- and interdisciplinary teams to create novel ideas and develop existing business strategies. The advantage of cross-cultural and multidisciplinary approach is the possibility to mix knowledge from different backgrounds and zooming in and out of stated issues. (Kelley, 2012; Koria et. al., 2011)

This methodology has also demonstrated to add to the variety, depth and quality to the exploration of innovations thus teams with individuals from diverse backgrounds can observe human circumstances from multiple angles. Quote from Koria et. al. (2011, p. 17) paper explains value of the stated methodology from an academic perspective: “...it seems evident that engaging students in cross-cultural teamwork through short-term innovative development projects can help stakeholder organizations to benefit from new and fresh ideas and thinking, and to gain new insights that help to build up novel, innovative practice. The key to success is a multi-way partnering between local and international universities, business enterprises and public sector stakeholders, not forgetting the unique and valuable insights that individuals involved gain from their involvement in many ways and on multiple levels” but there is no doubt whether the same fundamentality wouldn’t work in business life since the

described projects in the quote have been real-life industrial projects with genuine targets. (Kelley, 2012; Koria et. al., 2011)

While Chinese can provide cultural insights and Finns objectivity to the idea creation processes, it is also important to understand that other nationalities should be asked to join the teams because they can add external insights that Sino-Finnish entities can't observe and realize. Furthermore, also the essence of cross-disciplinary aspects should be taken into account. As an example, if person with scientific background and person with artistic background collaborate, they can benefit from different ways of thinking and experiencing the occurring issues. Commonly persons with scientific mind-set rely on objectivity, hard facts and intellectual substances while persons with artistic mind-set rely on issues such as intuition, expression, emotions and soft reality. Even though the idea "More diverse team – Better outcomes" may sound a revolutionary, actually the fundamentals of it are longstanding and great inventors in past, like Thomas Edison, have used the diverse teams as a help of making breakthrough innovations. (Gelb & Caldicott, 2007; Kelley, 2012; Koria et. al., 2011)

In addition, the logic behind design minded collaboration emphasises as well breaking the ordinary producer – consumer setting where end-users (consumers) can't influence to companies' product or service development processes. If consumers are involved already in the very beginning of development and ideation processes, companies have a great possibility to reveal and focus on the genuine needs of consumers. Furthermore, in 2011 survey (Beg et. al., 2013), about 30% of Chinese consumers expressed that they are very interested in participating innovation efforts of companies. To illustrate possible setting on how to execute this process, the following example will enlighten the idea better: Since China is rapidly urbanizing, urban compounds provide a great possibility to arrange carefully selected test beds to products and services since compounds' residents from several block of flats can be easily evaluated on the basis of location of compound and the price of the apartments. Direct cooperation with consumers in compounds enables also the possibility to prototype and observe authentic usage of new products or test different services through interactive methods like role-plays where consumers' behaviour can be analysed with help of tools such as journey mapping. The interaction with consumers and development teams facilitates as well as the fundamental philosophies of "learn by doing" and "trial and error – fail fast and succeed faster", which speeds up the whole process of finding products and services that really are welcomed to China's challenging markets. (Beg et. al., 2013; Brown, 2008a; Liedtka & Ogilvie, 2011)

Design thinker's mind-set

All design initiatives described so far also match well with the five main elements of design thinker's mind-set. These five elements or bedrocks of design philosophy: Empathy, Integrative Thinking, Optimism, Experimentalism, and Collaboration, were firstly described in Brown's article (2008a, p. 3) and the key guidelines behind all the stated elements underline the importance of human-centred approach. To explain briefly the idea behind the elements, it can be acknowledged that; Empathy refers to the mind-set where developers and idea creators are able to emphasize themselves as users, Integrative Thinking refers to the ability to see all of the relevant—and sometimes conflicting— aspects of complex problems and produce novel solutions that go beyond and dramatically improve on the present alternatives. Optimism refers to the positive attitude where always exists a better alternative despite the several unsuccessful trials. Experimentalism refers to the creative approaches to solve problems, and Collaboration refers to the replacing of the myth about lone creative genius towards the great power of team working with diverse backgrounds and cultures. An additional spice to enhance the understanding of human-centred approach was illustrated in IDEO's publication (2009, p. 5), where the fundamentals were presented through three cornerstones: Desirability, Feasibility and Viability. This approach concludes that designs should be desirable within the consumers, technically and organizationally feasible to companies and financially viable for both entities (See figure 23). (Brown, 2008a; IDEO, 2009)

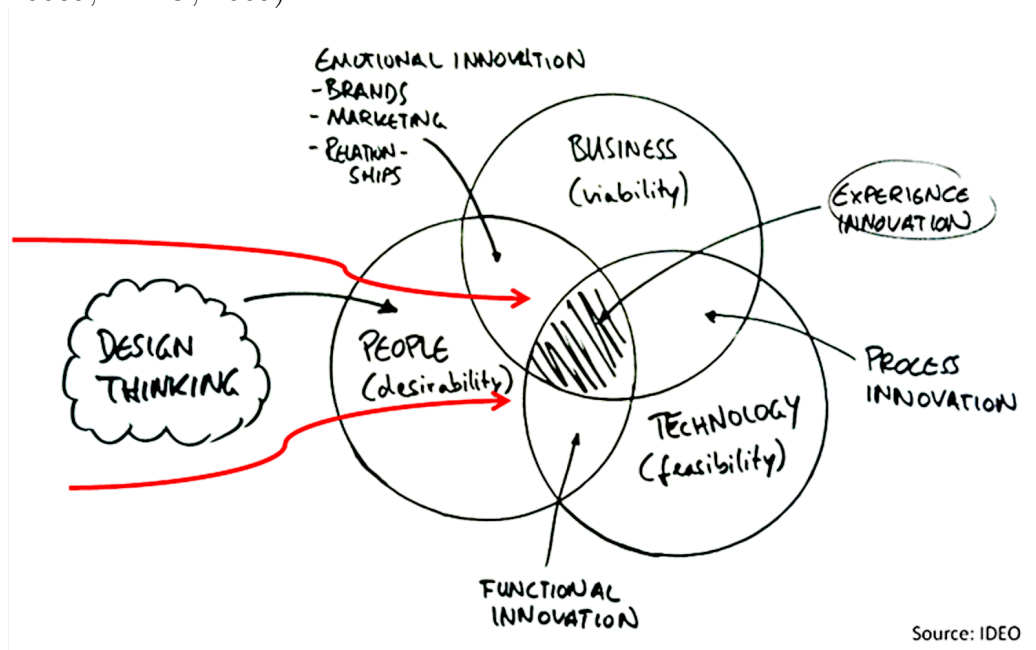


Figure 23. Three cornerstones of Human-Centred Design. Source: University of St. Gallen, 2011.

In addition to rich attention to philosophical fundamentals and abstract subjects, design knowledge also pays great emphasis on practice and concrete issues such as tools, which are useful in human-centred processes. Customer insights, ideation and prototyping tools, for example, have various benefits in business development processes (Osterwalder & Pigneur, 2010, p. 125). Customer insights don't refer to the basic market researches where customers are surveyed through questionnaires or interviews, instead, it stands for in-depth analysis of customers through various observation tactics. The main problem behind the market researches is the difficulty to illustrate the true needs and desires of new products or services since it is rather hard to imagine solutions, which don't exist. In other words, it is hard to describe problems, which are not so obvious in customers minds thus there are already available some solutions that fulfil the gap of necessity. As an example, before Apple's iPod entered the markets, there were many portable devices with possibility to play digital music, plus back then there was also a booming trend of downloading music freely from illegal sources. From market researchers' point of view, the situation for Apple's iPod wasn't favourable. Facts argued that competition within portable media players is harsh and customers are uninterested to pay for digital music (Osterwalder & Pigneur, 2010, p. 128). However, when Apple introduced the iPod, it became quickly the dominant player in its industry. The reason behind the success was Apple's capability to understand customers' needs and desires, which weren't obvious at the first place. The creation of a seamless and user-friendly music experience for its customers, through integrating the iTunes music and media software, the iTunes online store, and the iPod media player, fulfilled both factors of functionality and desirability and thus it became a leading product in its category. (Osterwalder & Pigneur, 2010)

Tools for helping to understand customers

To gain in-depth understanding and proper customer insights, companies should observe customers' behaviour and actions in their normal environment; follow customers' daily routines and reveal their concerns and aspirations. For improving the level of understanding, companies could also work with social scientists, such as anthropologists and sociologists, since they have professionalism and expertise to understand human behaviour. However, a simple tool for tracking customer insights is Empathy mapping, which was presented by Osterwalder & Pigneur (2010, p. 131). In Empathy mapping business ideas are reviewed through customers' eyes by answering the following questions:

- *What does she see – Describe what the customer sees in her environment?*
- *What does she hear – Describe how the environment influences the customer?*
- *What does she really think and feel – try to sketch out what goes on in your customer's mind?*
- *What does she say and do – imagine what the customer might say, or how she might behave in public?*
- *What is the customer's pain - What are her biggest frustrations?*
- *What does the customer gain - What does she truly want or need to achieve?*

The goal is to gain genuine understanding about the customers and iterate product or service ideas through the learned knowledge. The tool is useful in many cases and as an example it could be implemented in a setting where Finnish managers are pondering around questions related to product or service development issues where Chinese teenagers are the main target group. It could be argued that it is rather difficult for Finnish managers to understand Chinese teenagers holistically if they need to rely only on market research data, where customers are usually analysed just with statistical terms and thus the Empathy mapping is a valuable complement in development process. (Osterwalder & Pigneur, 2010)

Trend analysis and future scenarios are also other useful customer insight tools to keep in mind since they provide a great source of inspiration and improvement for company's strategy. For example a summary of fast growing consumer categories in today's China; Toys, Convenience foods, Pet products, Personal care products, Wine and whisky, Snack foods, Health food and products, Baby products, Vehicle products, Products for the elderly and Mid-range products; gives food for thoughts for companies, whether they have already some products or services, which could be successful in Chinese markets, or whether they should rethink their business strategies and develop new offerings. (Qiu, 2011)

Successful ideation process is the bedrock of all innovations but when great ideas are needed, it is hard to catch up ground-breaking ideas out of nothing and as known, forced ideation under pressure and strict timeframes, can make the creation of brilliant ideas even harder. In other words, if the ideation process basis on a rational task – create good ideas – a risk occurs that ideas accomplish only the stated task by serving set of ideas without genuinely focusing on the quality and creativity of the ideas. On the other hand, even the bad ideas are useful since they can provide valuable inspiration and further

“What if?” -questions may lead to wonderful outcomes when some factors of bad ideas are changed or when ideas are reviewed from totally different perspective. According to study "Technological innovation progress in Central China: a survey of 42 firms" (Ren, et. al., 2010) new ideas for innovations are mainly coming from three sources: 1) the end-user 2) the organization itself 3) the competitor. As the result highlights, the main source for ideas is often the end-user but in addition, ideas can also be found from other entities such as academia, research institutes or even from open-source platforms such as online idea competitions. (Kelley, 2012; Ren, et. al., 2010)

Great ideas are cornerstones for companies

Despite the numerous sources where the ideas can be found the most critical part is to capture ideas. The best time to capture ideas is all the time and thus one of the best tools is to carry a notebook and capture new ideas right after facing them. In modern world, several mobile apps can fulfil this functionality plus smartphones are normally always with us in everyday situations nevertheless it is also not a bad decision to use a traditional pen and paper solution as an alternative (Kelley, 2012, 3min45s). To underline the effectiveness of this methodology, it can be shown that also the world's greatest inventors, such as Leonardo da Vinci and Thomas Edison, have used the same methodology. They kept detailed notebooks where they gathered diverse observations from the world around them. Emphasising the importance of diverse observations is also proper to point out since the observations out of their areas of expertise facilitated overcoming the "traditional" way of thinking. This was one factor, which enabled the creation of very innovative ideas because they used ingeniously different inspiration sources and mixed the new notions to their former knowledge. (Gelb & Caldicott, 2007; Kelley, 2012)

Another beneficial tool in ideation processes, and in other development processes as well, is the visual thinking method. No matter whether ideas are hand-rendered drawings in A4 papers, mood board picture collections or quick sketches in post-its, the main idea is to give more tangible form to ideas and as the old phrase say “A picture is worth a thousand words”. The key element in this methodology is to emphasize the power of illustrations, no matter whether illustrations are artistically impressive or not, and focus is in raising the level of understanding (Osterwalder & Pigneur, 2010, p. 148). Visualizations turn tacit assumptions into explicit information and it sets a clearer base for additional discussion and review. Visual form makes it also easier to share the big picture of ideas to others, for example in brainstorming sessions, and achieve a collective understanding about the idea. After the shared ideas have achieved

in-depth understanding within the development team, the visualization gives also a proper anchor point for further development and then on it improves the collective enhancement and iteration processes of the expressed ideas. In addition, for highlighting one successful example of using visual thinking, it can be described a manner how Thomas Edison used visual metaphors. He used hand-rendered drawings to illustrate familiar objects in new ways. His technique, together with verbal analogy and fantastical storytelling, assisted Edison to compare elements of his ideas and understand better those ideas that were still incubating. As the example describes, visual form boost as well the establishment of the ideas, which are difficult to put in words in the very first stage. (Gelb & Caldicott, 2007; Osterwalder & Pigneur, 2010)

Power of prototyping

Furthermore, prototyping is also excellent tool for transforming ideas from intangible form to tangible. The transformation from abstract to concrete creates as well a constructive possibility to test the created ideas in real setting, which then on speeds up the trial and error iteration circles and helps in the exploration process of finding the preferred outcome. In addition, prototyping doesn't have to be complex or expensive (Brown, 2008a, p. 3), despite the enormous possibilities that for example 3D printing provides currently, and the famous example of prototype for otolaryngology tool highlights well the mentality that prototypes can be produced also with materials and ingredients, which exist in normal office or household environment. The story behind the famous prototype (Suzuki, 2010) comes from a meeting where a development team identified issues related to existing solutions and uncovered the needs of surgeons. The simple prototype, made out of office supplies during the meeting, articulated the arisen idea and led to a fruitful discussion where surgeons (end-users) shared their knowledge ideas of further development and finally, after the several development cycles and refinement process, the final product was established and it tripled the company's revenue in that specific product segment. As the key takeaway of the story describes, the aim of prototyping isn't to create a final model at first attempt. The aim is to learn about the strengths and weaknesses of the idea and classify new directions that further prototypes and prototyping cycles might take. The false belief is as well that prototyping mentality is fixed only to product-based innovations. Also services can be prototyped but then it needs to be acknowledged that the prototyping has to be performed in the way that is tangible and thus for example role playing in test environments drives the same function that physical prototypes provides for product innovation segment. (Brown, 2008a; Fraser, 2007; Suzuki, 2010)



Figure 24. Otolaryngology tool prototype out of office supplies.
Source: Suzuki, 2010.



Figure 25. End product of the prototyped otolaryngology tool.
Source: Suzuki, 2010.

10 Success with design thinking – Empirical evidences through Case studies

Once the design knowledge tools, methods and mind-sets are now elaborated, it is time to analyse two successful and dissimilar companies, Chinese and non-Chinese, operating in China. The aim is to highlight the design driven elements of the companies' operational strategies by using design thinker's mind-set as an analytical framework. The framework is selected to act as an analytical tool because the design thinker's mind-set gathers properly the main fundamentals behind the design knowledge and therefore it fits well for the purpose of highlighting the basic design driven elements within the actions of the companies. The purpose of this short exercise is to provide more empirical evidences to support the theoretical part of the design knowledge. Both case studies construct in following way; firstly, the companies are shortly introduced together with evidences of their success in Chinese markets and secondly, the companies are studied from design thinker's point of view by focusing on the five elements: Empathy, Integrative Thinking, Optimism, Experimentalism, and Collaboration.

KFC

Kentucky Fried Chicken, or better known as KFC, is one of the best-performed non-Chinese companies operating in China. KFC is a fast-food operator, which belongs to U.S. enterprise called Yum! Brands Inc. In China, KFC's menus include almost twice as much choices than in U.S. and typical choices in KFC China's menus are spicy chicken, rice dishes, soy milk drinks, egg tarts, fried dough sticks, wraps with local sauces, and fish and shrimp burgers on fresh buns (Bell & Shelman, 2011, p. 138-139). KFC's first Chinese outlet was opened in 1987, near to Tiananmen Square in Beijing and during the past years KFC has increased enormously in China. To highlight its success, quote from Rose (2013) "*KFC has 4,400 restaurants in 850 cities and will add another 700 this year*" in addition to quote from Bell & Shelman (2011, p. 139) "*With KFC as its flagship chain, Yum! has become China's largest restaurant company by far, with more than 250,000 employees and about 40% of the market for fast-food chains*" evidences that KFC has enlarged its business in China remarkably. Also according to Millward Brown's market research between 2011 and 2013 (Rose, 2013), which included almost 60,000 face-to-face and online interviews with consumers in 10 Chinese cities, KFC ranked as the most known brand in China.

When starting the design knowledge analysis of KFC from *Optimism* point of view, it can be noticed that in the beginning KFC didn't gain so much popularity within Chinese since customers didn't like the food (Bell & Shelman, 2011, p. 138). Despite the fact that KFC was able to continue with the business model and menu imported from the U.S. and still perform moderately well in the largest Chinese cities, the executives of KFC China believed more on their clue *"to take the best ideas from the US fast-food model and adapt them to serve the needs of the Chinese consumer"* (Starvish, 2011). In other words, the executives were brave and optimistic enough to modify the KFC's strategy to fit better in the Chinese environment instead of waiting that the U.S. model would attract Chinese customers and as the current popularity shows –it was worth of trying.

From *Empathy* point of view, KFC's actions are also based on human-centric initiatives. They understood that the food is at the very heart of society and culture and therefore it would be vital to acknowledge properly the different regional preferences of consumers. The example in Bell & Shelman's (2011, p. 139) underline well this ideology: *"In the chain's early days, when the same recipes were served at all outlets, Shanghai customers complained that dishes were too hot, while diners in Sichuan and Hunan complained that they were too bland. So the company changed its recipes to suit the regions. It also offers congee, a popular rice porridge that is hard to make at home, which is KFC's number one seller at breakfast."* In addition, KFC also understood the different working cultures between China and U.S. and quote from Starvish (2011) article expands more on this idea: *"And so the employer-employee relationship [in KFC] has more a feel of family. "In the United States, if you don't show up at work, what happens? You get fired," ... "In China, where many of the company's 250,000 employees are college students working their first job, it's like, 'Oh we understand that sometimes you feel like skipping class. If you decide to skip work—please call in and let us know, so we can make sure your job is covered."*

Evidences of *Integrative Thinking* can be found from the novel solutions that KFC China created even though it had the possibility to duplicate the existing U.S. solutions. In U.S. the whole concept of KFC basis on fast-food culture and thus, for example, the outlets are designed to support take-away meals instead of dining in the outlet. In China, executives considered U.S. set up before implementing it into China and so they ended up creating a new concept that would fit better to needs of Chinese consumers and quote *"The company's managers sought to stretch the brand so that consumers would see KFC as part of the local community—not as a fast-food chain selling inexpensive Western-style items but as restaurants offering the variety of foods and the traditional*

dishes that appeal to Chinese customers. They enlarged the outlets, which are about twice the size of those in the U.S., to allow for bigger kitchens and more floor space where customers can linger. They made a special effort to welcome extended families and groups" elaborates well this integrative way of thinking (Bell & Shelman, 2011, p. 138).

KFC's *Experimentalism* can be noticed for example from their rapidly renewing menu. KFC *"introduces about 50 new products a year (some of them are offered only temporarily), compared with one or two in the U.S"* (Bell & Shelman, 2011, p. 138), which tells about company's trial-and-error mentality of finding new successful recipes, in addition that frequently changing menu attracts customers to visit outlets more often.

Collaboration practices are also in the core of KFC China's company philosophies. Once the KFC China recruits new employees, often the newcomers have to go through KFC's training program where the basic people skills and teamwork capabilities are taught to them (Bell & Shelman, 2011, p. 140). The learning process is also important since the China's one-child policy and the increasing online-communication have weakened especially the interaction capabilities of younger recruits. Teaching employees how to interact with customers is as well crucial from business point of view since according to China results from Accenture 2012 Global Consumer Behavior Survey (Chan et. al., 2013, p. 14), the most important element for Chinese in customer service is the polite and friendly employees. A clue from KFC's inner collaboration practices can be also found from the senior researcher Mary Shelman's comment (Starvish, 2011) once she studied the KFC China for Harvard Business School case: *"There was huge camaraderie evident in the way that the top management team interacted with each other ... they bantered back and forth and poked fun at each other," Shelman says. "They'd be walking down the hall jostling, pushing, laughing. This is a group that has worked together a long time—unusual in a country where experienced management talent is at a premium."*

Xiaomi

One of the currently rocketing Chinese companies is Xiaomi Corp., which was founded in 2010. Xiaomi produces smartphones, televisions and routers in addition that it plans to expand its' product range to other consumer electronics as well (Bloomberg News, 2014, 23 Apr). Even though Xiaomi released its first smartphone in 2011 and only three years later it already bypassed Apple's market share in Chinese smartphone market. According to the Canalys Q2 rankings (Chang, 2013), Xiaomi achieved 5.0% market share of smartphones

compared to Apple's 4.8%, and according to the report from Counterpoint Technology Market Research on February 2014 (Harjani, 2014) *"two of its [Xiaomi] models ranking in a list of the world's top 10 bestselling smartphones for the first time."* In the first quarter of 2014, Xiaomi sold 11 million phones and it increased its annual sales estimation from 40 million to 60 million. Another impressive detail is Xiaomi's 1.5 billion yuan (\$240 million) orders during a one-day Web sale in China on 8th April 2014, in addition that it is now the nation's third-largest e-commerce site (Bloomberg News, 2014, 23 Apr). Xiaomi has also ambitious plans to sell 100 million phones in 2015 and expand business overseas.

Xiaomi's design framework analysis can be opened with an exciting detail of its *Optimism* since Xiaomi's enthusiastic attitude to bypass challenges can be found directly from the company's logo. According to Xiaomi's website (2014) *"The 'MI' in our logo is short for Mobile Internet. But it also has other meanings, one of which is 'Mission Impossible' because upon establishing Xiaomi, there were many barriers to defy and it seemed quite impossible at the time."* However, when studying now Xiaomi's financial statistics, it can be noted that despite the former barriers, Xiaomi's optimistic and open-minded way of thinking has been definitely beneficial for the company.

Nunes & Downes (2014a) also explain *Optimism* elements, which are linked to Xiaomi's business model. Firstly Nunes & Downes share their idea of the Big Bang Disruption model, which stands for a new product life cycle model. According to the authors, today's global and rapidly developing market is changing the classical nature of product life cycles. Nunes & Downes (2014b) claim that the product life cycles are transforming from the former "bell curve" towards "shark fin" where there are no segments such as early adapters, early-maturity, late-maturity and so on anymore, instead, in the Big Bang Disruption model there are only two segments, trial users and everyone else (Nunes & Downes, 2014b). In other words, Big Bang Disruption model underlines that in these days, product demand truly skyrockets once the test users fall in love with the product and share their experiences through social media channels all over the world.

Relating Xiaomi's business model into Big Bang Disruption theory, Nunes & Downes (2014a) say: *"To capitalize on that behaviour, you need the courage to believe in your own strategy. Whatever production capacity you have ready at product launch will determine how much you can sell in the brief window when your product goes from must-have to also-ran. If you think you've got a winner, you'd better have lots of inventory on hand, and ready access to partners who can rapidly scale up more production to keep customers supplied"*

while they're still eager—even fanatic—about buying” and therefore the statement underlines the fact that Xiaomi has trusted their products to sell huge amounts in short timeframe – and they have. According to McKenzie & Riley (2013) “The company [Xiaomi] claims its latest offering, a low-cost smartphone called “red rice,” sold its entire first batch of 100,000 units within 90 seconds.”

Empathy and Collaboration aspects can be pointed out from different facts but one of the key evidences, which summarizes both aspects, is Xiaomi’s slogan – “Just for fans” (Xiaomi, 2014). To highlight the Xiaomi’s human-centric philosophy it can be observed that Xiaomi wants to understand its customers, or “fans”, and Xiaomi cooperates closely with its fans for achieving this in-depth understanding. It could also be argued that without fans, Xiaomi probably hadn’t gained such a great popularity as it has now since through the fans feedback Xiaomi has been able to develop its products to fit the true needs and desires of its customers. The quote from Wee’s (2012) interview elaborates well this statement: “Lei Jun [Founder of Xiaomi] says of the company’s enthusiastic fans: Most of the fans have ideas about their perfect phone. But many of them can’t do it because building a phone is tough. So they would give us feedback about the features that they think should be included in our next model. And if we incorporated that in our new phone, they will share the good news with their friends. Besides providing feedback voluntarily, Xiaomi fans also serve as an echo chamber for the phone-maker.”

From *Integrative Thinking* and *Experimentalism* point of view, Xiaomi has combined different innovative and broad-minded methods in its business operations. Xiaomi sells its products online and without having physical stores it can reduce costs and use the saved resources to create better products (Wee, 2012). The ecosystem that Xiaomi has built around its sales channels is therefore totally under its control and also it bypasses the threat of retailers’ influence on its brand experience. In addition, comment: “Xiaomi believes that in markets where consumer preferences are hard to predict and change rapidly, “flash sales” can help determine which products are likely to be big hits, driving future production” (Nunes & Downes, 2014a), highlights the explorative approach, which Xiaomi follows. Xiaomi’s marketing approaches can be seen also as quite innovative thus according to Lei Jun (Wee, 2012) “word of mouth marketing is perhaps one of the company’s best promotional channels. He describes Xiaomi users as people who are usually banded in a group. If one person starts using a Xiaomi phone, his or her friends would most likely start using it too. And in that way, the word spreads. Fans’ enthusiasm over Xiaomi was apparent when we attended the recent Xiaomi Mi2 launch event in Beijing. Fans paid to be there (the ticket revenue was donated to charity) and wore

orange to show that they are fans of Xiaomi” speaks on the behalf that huge marketing efforts might be waste of money if company can spread its messages through these kinds of creative ways.

Conclusion of case analysis

As these both cases presented, the design-oriented mind-set can be a supporting and beneficial element to enhance company’s business performance in China. Nevertheless, it can be always argued that this kind of analysis won’t illustrate all the reasons behind these companies’ success in Chinese environment, which is absolutely true. However, the purpose of this exercise wasn’t to prove that design knowledge is the absolute answer to generate successful business and strategy. Instead, the purpose of this exercise was to highlight the basic design driven elements, which can be easily spotted from the actions that these successful companies have executed during their lifespan in China. In addition, through these point outs it is also easier to argue that design knowledge has its advantages while studying business practises and generating new strategies, because the stated empirical findings support the presented fundamentals of design knowledge. As a main take-away from these case studies, it can be summarized that understanding the true needs and desires of customers – it is easier to create novel solutions, which boost the business.

11 Advices for newcomers – Thoughts of experience

Interview setup

After analysing the Chinese future prospects and the design knowledge elements, the next step is to explore the existence of Finnish companies in China. The purpose of this chapter is to crosscheck how the stated information in previous chapters, such as the value of design knowledge or big questions related to Chinese future, links to the current Finnish business context in China. To gather this more empirical and extensive knowledge about the presence of Finnish companies in China, the research executed two in-depth interviews in the beginning of May 2014. These two interviews also presented the first round of the interviews and the following second interview round was executed after analysing the prior findings from the first round.

The questions and structure of the qualitative interviews were same for both interviewees in the first round and the answers based on the interviewees' several years of experience of working in China within the Finnish business context. On Monday 5th of May, Timo Laurila, the current Executive Director of Finnish Business Council Shanghai and the former Managing Director of MPS China (a management consulting company), and on Tuesday 6th May, Oskar Helling, the current Founding Partner and Chief Analyst of Asia8Group and the former Executive Director of Finnish Business Council Shanghai and Correspondent of Kauppalehti ("Trade-paper" – business oriented newspaper in Finland) in China and Asia related topics, shared their thoughts about difficulties and advantages of Finnish companies existence in Chinese markets (See appendix 3). In addition, Mr. Laurila and Mr. Helling, also commented on how they see the future prospects and opportunities of Finnish companies in China's rapidly growing market. The following text summarizes the key points and outcomes from both interviews as well as it underlines the general issues that unfolded during the discussions.

The difficulties that Finnish companies have faced in China

First question focused on the biggest difficulties that Finnish companies have faced when operating in China and influence of Finnish headquarter, cultural differences, difficulty to find the right information, too limited financial

resources once entering into China as well as the rapidly changing Chinese laws and regulations were the major themes that both interviewees pointed out. A common mistake is that Finnish companies send a person to China for establishing business operations and the headquarters expect that the founding process would follow the similar framework and time-frame than in Finland. This closely links to the incapability of understanding the cultural differences. The establishing process is not so straightforward that seconded persons could report about the progress instantly and the strategic decisions made in headquarters are often conducted in too hasty manners and with too short-term thinking perspective. Another common mistake is that seconded persons are called back to Finland after one or two years, which is usually the time needed to create proper networks and business relations in China. The underlining observation is that Finnish companies recognise the difference between the cultures but they don't truly understand and acknowledge the differences in Chinese business environment, which is very challenging and also favourable for Chinese domestic companies in some terms.

The difficulty of finding the right information stands out in many cases and all the time changing laws and regulations cause challenges – not only to Finnish and other foreign companies but also to Chinese companies as well. However, Chinese attitude towards laws and regulations is totally different compared to Finns. Once Finns slavishly follow the laws and play by the book without making any actions, which might be prohibited, Chinese understanding towards laws is more open-minded from Finnish point of view and even though Chinese follow the law, Finns might consider that their actions are against the spirit of western juridical system and morality. In addition, the national laws and regulations in China are looser than in Finland and the way of how laws and regulations are applied in different provinces or cities might also have a huge variance nation wide.

According to interviews, a typical misbelief is that China is still a cheap country to operate and run businesses. Therefore some Finnish companies have gathered only the minimum capital that is required to enter Chinese markets and that has caused severe problems, even bankruptcies in the worst cases, since the additional investments take time to complete, because the rigid transaction policies. In addition, the time needed to generate steady cash flow, all the time rising employee costs and costs related to the high job turnover as well as other operation costs that were much higher than were estimated beforehand, are common reasons for financial difficulties. Therefore companies should pay attention to entry budget that is large enough. Another piece of advice is to consider Nordic banks that operate in China, since the financial

matters such as additional loans, could be easier to manage through their closer relations to Scandinavia and Finland.

The advantages of Finnish companies in Chinese markets

The biggest advantages that Finnish companies have faced while working in China are good reputation and exceptional quality. Chinese trust that Finns provide exactly what they have promised and the clear and straightforward business is praised. Finns are also seen as fair and reliable employers who treat employees equally. Special attention can be given to Nokia, which had a notable role during the former economical development in China because it was a large employer for Chinese citizens. In addition, Finland was among the first countries that established diplomatic and trade ties with China and it is still in fresh memory of Chinese officials who value and appreciate the stated issue. According to interviews, Sino-Finnish co-operation has also worked well and Finns haven't created political tensions with China that could harm the on-going businesses. A warning example of such tensions is Norway since its diplomacy with Dalai Lama has caused negative effects to Norwegian companies' operations in China.

The good quality of Finnish products is probably the most outstanding feature that stands out for Finns' advantage in Chinese competition setting. Unfortunately the Finns are also criticized of focusing too much on quality, which can be often seen in the price tag. In other words, the high price links to a lower demand. The engineer oriented mind-set where the preciseness and reliability of products are fine-tuned until the extreme is not the only trick to win market share in China. The expectancy and design horizon of products are different in China and one of the major challenges for the Finnish companies is to segment themselves to other categories except the high-end segment. This point was also emphasized in Makkonen & Yao (2014, p. 24-26) report, where the authors call after the better understanding of low-low, low-mid and mid-market segment possibilities, because Finns could achieve bigger market shares after acknowledging the true needs of different segments. The interviews also painted a picture that Finns typically sell their products to Chinese markets according to a presumption of the possible demand. The factors that are important from Finnish perspective might be totally useless from Chinese point of view. Example of purchasing process of a tractor, where Finns might appreciate air-conditioner, low fuel consumption and ergonomic seat as important factors to influence purchasing decision, Chinese might consider the low price, reliability and functionalism of tractor more important and thus this

misunderstanding and different value perspectives between Finns and Chinese customers will affect negatively to Finnish companies' popularity in China.

Instructions for market entry

Question about the first steps that Finnish companies should take once they consider entering into Chinese markets highlighted the importance of acknowledging beforehand the nature and requirements of Chinese markets. Mr. Laurila and Mr. Helling strongly recommended that Finnish companies should have a crystal clear vision and idea why they enter to Chinese markets and what they are going to do in China. A common pitfall is that Finnish companies enter Chinese markets with low budget and the core idea that they have is just to test the market or sound the novel market environment because other companies have also established their businesses in China. It is true that without entering the market it is impossible to say accurately where to focus and place bets but instead of risky and too naïve approaches, Finnish companies could start their market explorations with discussions and research trips in Chinese territory. Several Finnish entities, such as Team Finland network, Finnish Business Council Shanghai and various Finnish companies already existing in China, provide an excellent source to gather more in-depth information but probably the best practise is still to discover opportunities through real visits in China. Consulting services could also be considered but while using their service it should be kept in mind that China is an enormous market area with various differences and special regional characteristics so if someone claims to be expert of "Chinese markets" it is better to be doubtful rather than believing issues that are too good to be true. An additional benefit for Finnish newcomers is as well the fair-minded Finnish mentality because many Finns, who live in China, are glad to support and give advice for newbies if they ask for help.

Typical pitfalls for Finns

Another key topic raised during the discussions related to first steps in China was Finns propensity to plan everything in very detail. This issue has pros and cons. Since China is still developing, Finns have a business opportunity to trade knowledge related to planning and executing complex processes or managing the complexities in organizational matters, which enhances performance of Chinese companies. However, the Finnish tendency to plan in a very detailed manner or even over plan certain matters backfires sometimes in Chinese context because the implementation of plans doesn't often respect the time and effort used on

planning. In addition, the speed how rapidly situations change in China might also make premade plans unusable. The planning itself isn't useless but Finns should pay more attention to more open and agile plans that enable faster reactions to unexpected events. Many times Finnish companies are also lacking of secondary plans, such as how company responds if some of its key employees suddenly decides to leave the company, since such a scenario would be very unlikely in Finland and thus not worth considering but in China such issues are everyday business.

The interviewees also claimed that Finnish companies are often too slow in decision-making processes. The classical think twice and sleep overnight before important decisions might be a proper practice in Finland but in China it is not. Finns should have a greater speed in executing decisions. In other words this could mean greater responsibility and independency of managers working in Chinese offices. It would also be helpful if managers wouldn't have to slavishly follow Finnish organization guidelines and approve every decision through headquarters. Contracts and deals are lost because from Chinese point of view the time linked to the decision-making doesn't contain such a high value than in Finland and therefore first come, first served plus the tense competition drops Finns out of the game. The much more competitive market environment is also challenging for Finns in the beginning and newcomers should not be too naïve and credulous, and the normal scepticism plus suspicion towards too good offers are warmly welcomed. Double-checking the progress is as well beneficial since Finnish and Chinese way of thinking differ and things can't be taken as granted. For example, the signature in the contract doesn't necessarily tie the parties in similar terms than in Finland. Furthermore, the approach where company doesn't trust anyone and tries to manage all the actions by itself isn't beneficial either. The best practise is to outsource the actions that are out of own expertise and set clear and tight rules to control the founded partnerships.

Importance of right partners

In addition to partnerships with Chinese entities, Finnish companies should also consider partnerships with other Finnish companies – even with their competitors – because it should be acknowledged that the market setting in China is totally different than in Finland. When a Finnish SMEs operate in Finland, the battle of customers means typically that if one SME achieves a deal with a customer, another SME is left out of chances. This phenomenon is explained through limited amount of potential customers in specific sectors and through the small size of the domestic market. However, this is not the case in China where the amount of potential customers is almost exponential compared

to Finland. Therefore once Finnish SME enters to Chinese market it is more beneficial to join forces with other Finns because there will be enough market for everyone. Also through partnerships it is easier to gain bigger market shares and achieve win-win settings, which wouldn't be possible in Finland. In addition, from the point of view of whole Finnish economy, it is also better that there will be more success stories and thus Finns should pay more attention to this kind of co-operation ventures. Finnish government offers as well the authorial power in projects to help Finnish companies to success better in China. The authority services of Finnish Embassy where the Consulate General of Finland is invited to opening ceremony of a new factory as an example, impresses Chinese stakeholders more deeply because it provides more significant and honourable status for such an event, in addition that it gathers more high level participants to the event. This is an important insight since hierarchical aspects play a big role in Chinese business environment and the rule of thumb is that a greater attention of high status Chinese representatives you get – the better.

Ideas about the future

The interview questions about the greatest future prospects of Finnish companies in Chinese markets gathered comments for and against. It was admitted that Finnish expertise within the Cleantech industry could be a very potential candidate for a possible success story of the future since China needs to focus on its water, air and soil problems as well as it needs to become a more sustainable in its manufacturing and energy production processes. Another potential area where Finns could success in future markets were service industry; educational cluster; art knowledge; food safety and production; services and products related to elderly care; medical technologies and in the trade of special knowledge such as R&D. Nevertheless, both interviewees also expressed their concern towards the Finnish success in China because the competition will be even harder in the future. One outstanding example is the huge amount of new academic graduates that China and other Asian countries produce every year. These young experts are the ones who will radically change the tomorrow's business environment and modify the nature of Chinese future market. Therefore Finns should profile and segment themselves in a niche area where their expertise and special knowledge bypass all the competitors. It is not enough to be as good as others – instead it needs to be way better or cheaper than others if the future competition wants to be won and the later alternative isn't so sensible since the price competition against the cheap labour manufactures is fierce. It was also pointed out that currently the Finnish products and services purchased by Chinese contain some speciality, typically

superior quality or unique technology, that cannot be purchased elsewhere and thus Finns overtake these trade deals.

During the interviews also other important themes related to future and success strategies joined into discussion. Mr. Laurila pointed out the importance of social media in China and he highlighted that if Finns understand the nature of Chinese social media; it is rather simple to achieve remarkable popularity with low marketing efforts. Currently many of the Finnish companies don't use social media as a part of their marketing operations in China but that sector should definitely have more emphasis in the future since the popularity of Chinese mobile and online portals is enormous as well as they include functions that are still quite unfamiliar to western world such as mobile payments. Mr. Helling added as well interesting insights about Chinese development and the issues how Chinese have jumped over some development steps that westerners have lived through. For example the first TV for many Chinese is flat screen television whereas the first television for westerners is colour CRT television or even black and white CRT television. The example highlights the different consumption pattern of Chinese compared to westerns as well as their eagerness to try new technologies without too fixed reference on existing products. In other words, many times Chinese don't have to think about whether to purchase new products, which would replace old ones since they don't have the "old ones" because their purchasing power and standard of living have increased just recently. The direction that Chinese future development will take is also an interesting topic since unlike the typical western belief; Chinese level of development wouldn't necessarily mean the same than the western development. It is certain that China will develop but is the outcome of development similar than in west is more doubtful.

Key takeaways

As a conclusion, the greatest challenge that Finnish companies have to overcome in the future is to acknowledge the kind of products or services Chinese really want and therefore design knowledge gives a proper philosophy to iterate companies current product or service lines and think through how the existing solutions could be redesigned or modified to fit the real needs of the Chinese customers. Design knowledge also shares a proper mind-set on how to start design process for new solutions that thrive in China. In addition, it is also vital to improve co-operation practices and enhance the understanding of cultural differences and therefore the current business practises should be thought through in more open-minded procedures that don't rely too much on rigid business guidelines.

12 Strategic perspectives for the future

Interview setup and idea behind the TOWS analysis

Even though the future prospects and opportunities of Finnish companies in China's future markets were examined already in the previous chapter. The aim and purpose of this chapter is to find more empirical evidence and wide-ranging perspective on top of the issues that Mr. Laurila and Mr. Helling brought up already in the first round of interviews. The idea behind the second round of interviews was also to examine whether the ten interview's quantitative sample would support the general findings from the first round of interviews or not. In addition, this chapter focuses more deeply into strategic point of view of Finnish companies' current and upcoming position in the Chinese markets. The goal of this chapter is to raise more thoughts on the elements that enhance the process of developing competitive strategy for the future markets in China.

The second round of interviews contained ten different individual interviews and all the interviews were completed during June 2014. The interviewees represent Finnish professionals who are currently working in various positions and companies in China. The interviewees were selected to characterize as a mixed group as possible. The idea was to combine different viewpoints and opinions no matter what was the interviewee's field of work or time spent in China. The interviewees' companies varied from banking sector to heavy industries and the time period that interviewees had lived and worked in China varied from months to decades (The complete list of interviewees and their background can be found from the Appendix 2.). Despite the differences, the common and linking character that all interviewees had, was their personal knowledge and experience of how Finnish companies have operated and performed in China.

The second interview round contained two sets of questions (See Appendix 4). The first set of questions and the answers related will be analysed now. The analysis of the second set will be performed later on within this chapter. Interviewees were asked to answer to the following four questions according to their knowledge and personal opinion:

- What are the *strengths* of Finnish companies operating in China?
- What are the *weaknesses* of Finnish companies operating in China?
- What kind of *opportunities* Finnish companies can find from China's future markets?

- What kind of *threats* Finnish companies can face in China's future markets?

The answers gathered from these open questions were then analysed with an analysis method called TOWS. The abbreviation, TOWS, may not sound familiar for many but when it is linked to widely used SWOT (*Strength, Weakness, Opportunities and Threats*) analysis method, it is easier to understand also the core ideology behind the TOWS. The famous SWOT analysis method is typically used as an instrument to analyse internal strengths and weaknesses of a certain product, service or company and then reflect the external opportunities and threats that the operational environment creates for the analysed object. The idea of using SWOT is to focus on the strengths, minimize the weaknesses and take the best possible advantage of opportunities available by suppressing the potential threats. In TOWS, the idea is to perform the next step of the SWOT and develop strategies based on logical combinations of factors that relate to internal strengths (or weaknesses) with factors related to external opportunities (or threats). (Charantimath & Ravanavar, 2012; Weihrich, 1982)

Charantimath & Ravanavar (2012, p. 3) explained comprehensively these different strategic alternatives (as a outcome of TOWS analysis) by stating that: *"TOWS matrix identifies four conceptually distinct strategic groups: Strength- Opportunity (SO), Strength-Threats (ST), Weaknesses-Opportunities (WO), and Weaknesses- Threats (WT), for creating the alternative strategies. The SO strategies use the internal strengths to take advantage of external opportunities (ideal case) and the WO strategies aim at reducing internal weaknesses by taking advantage of external opportunities. On the other hand ST strategies include utilization of the strengths in order to avoid or reduce the effects of external threats whereas WT strategies are defensive tactics aimed at reducing internal weaknesses and external threats"*. The process of conducting the TOWS analysis is also explained thoroughly in the Weihrich's (1982) guideline (See figure 26). The following subchapter will now go through the TOWS analysis exercise based on to the collected answers and the aim is to summarize different strategic directions that Finns should follow while developing their strategies.

Step 1. Prepare an Enterprise Profile: (a) the Kind of Business; (b) Geographic Domain; (c) Competitive Situation; (d) Top Management Orientation			
		Step 4. Prepare a SW Audit in: (a) Management and Organization; (b) Operations; (c) Finance; (d) Marketing; (e) Other	
<div>Internal Factors</div> <div>External Factors</div>	Step 5. Develop Alternatives Step 6. Make Strategic Choices Consider Strategies, Tactics, Action Steps 1 to 6. Test for Consistency. Also Prepare Contingency Plans. (Step 7)	List Internal Strengths (S): (1)	List Internal Weaknesses (W): (1)
	Step 2. Identify and Evaluate the Following Factors: (a) Economic (b) Social (c) Political (d) Demographic (e) Products and Technology (f) Market and Competition Step 3. Prepare a Forecast, Make Predictions and Assessment of the Future	List External Opportunities (O): (Consider Risks Also) (1)	SO: Maxi-Maxi WO: Mini-Maxi
	List External Threats (T): (1)	ST: Maxi-Mini	WT: Mini-Mini

*The Steps Are Suggestive and May Vary

Figure 2. Process of corporate strategy and the TOWS analysis

Figure 26. TOWS. Source: Weihrich, 1982.

Strategic alternatives based on the TOWS analysis

To start the exercise, the first task is to list the Strengths, Weaknesses, Opportunities and Threats, which describe the examined phenomena. Based on data from the second round of interviews, the following issues were the most popular answers and therefore they were selected to represent the Strengths, Weaknesses, Opportunities and Threats for this exercise. All the answers were stated by at least three persons and the chosen answers describe the most prevailing views among Finns who live and work in China. (See the full list of answers from Appendix 5.)

Strengths of Finnish companies that operate in China:

(Number in brackets describe how many persons out of ten stated the issue)

- High technical competence and knowhow (7)
- Finnish products have a good quality (5)
- Finland is a neutral country (4)
- Innovation capability and China's need for new ideas (3)
- Corporation culture in Finnish companies (3)
- Good reputation of Finland in China, good brand (3)
- Reliable partner for Chinese (3)

Weaknesses of Finnish companies that operate in China:

(Number in brackets describe how many persons out of ten stated the issue)

- Finns are slow in decision-making & reaction time (6)
- Finns don't know the Chinese culture properly (5)
- No capability or courage to take risks / Fear of risks (4)
- Finns are impatient → Finnish companies want profits immediately even though it takes few years to run business profitably in China (3)
- No B2C knowledge and business (3)
- Finns don't speak Chinese (3)
- Sales, marketing (3)

Opportunities for Finnish companies that operate in China:

(Number in brackets describe how many persons out of ten stated the issue)

- Cleantech and other solutions to overcome the existing environmental issues (pollution etc.) (6)
- Growth in consumer products (5)
- Growth of China's domestic market (4)
- Food industry (4)
- How to get more Chinese tourists to Finland? (3)
- Urbanization (3)
- Rise of automation → Knowledge, education, machines etc. (3)

Threats for Finnish companies that operate in China:

(Number in brackets describe how many persons out of ten stated the issue)

- IPR & Copyright issues (5)
- Political matters (5)

- Changes in regulations (4)
- No possibility for long term planning, fast changes, hard to predict changes (3)
- Protectionism (3)

Once Strengths, Weaknesses, Opportunities and Threats are now explained, it is time to start combining the strategic alternatives (SO, ST, WO, WT) according to framework of the TOWS analysis. The following strategic alternatives illustrate one of the possible solutions and it should be acknowledged that the represented solution is just one possible way to create these strategic alternatives. In other words, the purpose of this exercise is not to provide a one fixed set of strategic alternatives, which cannot be questioned. The aim of the following alternatives is to provide an example of the most promising strategic directions. Furthermore, the idea of this exercise is to raise more thoughts about which directions could be more successful than others even though it is impossible to distinguish the right answer for this question.

<p><i>TOWS Matrix</i></p> <p><i>- Strategic alternatives for Finnish companies</i></p>	<p>Strengths:</p> <ul style="list-style-type: none"> • High technical competence and knowhow (7) • Finnish products have a good quality (5) • Finland is a neutral country (4) • Innovation capability and China's need for new ideas (3) • Corporation culture in Finnish companies (3) • Good reputation of Finland in China, good brand (3) • Reliable partner for Chinese (3) 	<p>Weakness:</p> <ul style="list-style-type: none"> • Finns are slow in decision-making & reaction time (6) • Finns don't know the Chinese culture properly (5) • No capability or courage to take risks / Fear of risks (4) • Finns are impatient → Finnish companies want profits immediately even though it takes few years to run business profitably in China (3) • No B2C knowledge and business (3) • Finns don't speak Chinese (3) • Sales, marketing (3)
<p>Opportunities:</p> <ul style="list-style-type: none"> • Cleantech and other solutions to overcome the existing environmental issues (pollution etc.) (6) • Growth in consumer products (5) • Growth of China's domestic market (4) • Food industry (4) • How to get more Chinese tourists to Finland? (3) • Urbanization (3) • Rise of automation → Knowledge, education, machines etc. (3) 	<p>SO Strategy:</p> <ul style="list-style-type: none"> • Create new offerings for Cleantech and automation sectors • Focus on lower Tier cities and China's rural/inland regions • Combine the good quality and reputation aspects also for the growing B2C markets (Food, Consumer products etc.) • Advertise the Finnish corporation culture • Increase the awareness about Finland • Enhance networks and create more partnerships in China 	<p>WO Strategy:</p> <ul style="list-style-type: none"> • Develop practices which enable working in a more dynamic way • Allow failures and learn through pilot projects • Increase the headquarters and management levels understanding about China • Increase the R&D activities in China • Co-operate closer with other Finnish companies
<p>Threats:</p> <ul style="list-style-type: none"> • IPR & Copyright issues (5) • Political matters (5) • Changes in regulations (4) • No possibility for long term planning, fast changes, hard to predict changes (3) • Protectionism (3) 	<p>ST Strategy:</p> <ul style="list-style-type: none"> • Use cloud computing possibilities and other new technological solutions to prevent IPR & Copyright problems • Uphold current relations and stay neutral in global politics • Turn illegal copying to advantage → Promotion • Develop skills to operate in uncertain circumstances • Explore M&A possibilities 	<p>WT Strategy:</p> <ul style="list-style-type: none"> • Focus on the market reader strategy • Change the fear of risk mentality into advantage • Advertise safe investment opportunities • Use consumer products as a distribution channel/business platform • Run business through Chinese company/companies • Prepare different strategic alternatives in advance

Strengths – Opportunities (SO) Strategy

- Create new offerings for Cleantech and automation sectors
 - ⇒ Use the existing high technological competence and start to develop solutions for Cleantech and automation sectors, which have the greatest potential for the future
 - ⇒ Differentiate from competitors with better quality and innovations
 - ⇒ Provide solutions that fulfill the real needs and desires of the customers (Learn from design knowledge)
- Focus on lower Tier cities and China's rural/inland regions
 - ⇒ Developing areas have a need for basic/"proven" technology solutions, which have a good quality and reputation
 - ⇒ Urbanization together with fast development speed generates demand for new innovations in various sectors since the brand new infrastructure also enables the implementation of the latest available technologies
- Combine the good quality and reputation aspects also for the growing B2C markets (Food, Consumer products etc.)
 - ⇒ Chinese value these elements especially in products that are targeted to kids
 - ⇒ Good quality and reputation further the success of health and well-being solutions
 - ⇒ Consider potential products & services, which could be exported from Finland to China
- Advertise the Finnish corporation culture
 - ⇒ Young talents prefer to work in safe career tracks and companies which treat their employees equally, and which also offer additional benefits such as proper vacations and lunch coupons etc. Practices that are common in Finland help keeping the Chinese employees more committed to Finnish companies
- Increase the awareness about Finland
 - ⇒ Chinese tourists want to gain status through travelling and therefore Finland should market more actively different unique sights and attractions that tourists could see and experience during their visits in Finland
 - ⇒ Finland could be marketed more actively by using its educational expertise and fresh nature

- Enhance networks and create more partnerships in China
 - ⇒ Use the status of being a reliable partner more actively
 - ⇒ Collaborate closer with Chinese companies and use the Finnish flat organization structure and open communication for your advantage

Strengths – Threats (ST) Strategy

- Use cloud computing possibilities and other new technological solutions to prevent IPR & Copyright problems
 - ⇒ Limit the access to valuable data/knowledge by encrypting data, running the operations in protected cloud, using multi-factor authentication methods etc.
- Uphold current relations and stay neutral in global politics
 - ⇒ Treasure friendship programs and bilateral visits
- Turn illegal copying to advantage → Promotion
 - ⇒ Develop business models where illegal copying doesn't affect the revenue streams
 - ⇒ In ideal case, the copying creates a beneficial promotion and marketing channel for companies where effects on copying are smaller than benefits in brand awareness
- Develop skills to operate in uncertain circumstances
 - ⇒ Modify and develop operational plans in regular basis
 - ⇒ Increase the possibility for agile actions and decisions
- Explore M&A possibilities
 - ⇒ Investigate whether a company could perform better and gain a larger market share through mergers and acquisitions with Chinese companies
 - ⇒ Consider scenarios whether a company could enter in new markets (for example African regions) through mergers and acquisitions with Chinese companies

Weaknesses – Opportunities (WO) Strategy

- Develop practices which enable working in a more dynamic way
 - ⇒ Investigate the reasons why the decision-making takes so much time
 - ⇒ Create solutions to enhance reaction time

- Allow failures and learn through pilot projects
 - ⇒ Avoid setting too strict financial goals for projects
 - ⇒ Use “learn-by-doing” mentality
 - ⇒ Lower the risks by executing small scale trials
 - ⇒ Co-operate closer with end customers
- Increase the headquarters and management levels’ understanding about China
 - ⇒ Increase the amount of bilateral visits between Finland and China
 - ⇒ Choose people who have a working experience from China in top management levels
 - ⇒ Develop cultural understanding for example by arranging exchange programs within the organization
- Increase the R&D activities in China
 - ⇒ Develop products and services in close contact to an end customer
 - ⇒ Use prototyping and iteration processes to see whether products and services correspond the real needs and desires of a customer
 - ⇒ Localize R&D actions and use more Chinese developers
- Co-operate closer with other Finnish companies
 - ⇒ Build a larger unit together with other Finns and use it as an advantage in a competition against others
 - ⇒ Share experiences and knowledge over the company borders
 - ⇒ Learn from others and enlarge networks/Guanxi

Weaknesses – Threats (WT) Strategy

- Focus on the market reader strategy
 - ⇒ Monitor and benchmark the most successful products and services
 - ⇒ Analyze the factors behind the others’ success
 - ⇒ Develop better alternatives based on the market demand
- Change the fear of risk mentality into advantage
 - ⇒ Focus on the “safe” alternatives
 - ⇒ Develop brand image of being prudent, assertive and trusted
 - ⇒ Provide solutions to sectors where fear of risk is appreciated, for example in securing Internet banking, medical devices etc.

- Advertise safe investment opportunities
 - ⇒ Provide different investment options for China's growing middle class such as Finnish forest, land rights, residences, stocks etc.
 - ⇒ Use good Sino-Finnish relations and the neutral country image for advantage when inviting Chinese investors
- Use consumer products as a distribution channel/business platform
 - ⇒ Operate between B2B and B2C
 - ⇒ Offer for example free products to consumers but collect the revenues from B2B linkages (similar business model such as Facebook, Google etc.)
- Run business through Chinese company/companies
 - ⇒ For example develop a win-win environment where Finnish company earns revenue through licensing activities and Chinese company through the B2C sales
 - ⇒ Aim for settings where neither of the companies can't operate without other
- Prepare different strategic alternatives in advance
 - ⇒ Don't prepare strategies in too long time perspectives
 - ⇒ Develop always "plan b" and "plan c" alternatives
 - ⇒ Overcome the slowness in decision-making by being one step ahead of others

Design thinking as a tool for strategy development

Whereas the TOWS analysis is more of a business driven approach, it cannot substitute the human-centred approaches, which are as important when developing new strategic initiatives. Like it was already highlighted in the chapter "*Success with design thinking – Empirical evidences through Case studies*", different elements relating to design thinking can be found from the operational strategies of companies that are successful in China. Therefore, it was decided to execute also another questionnaire during the second round of interviews. The purpose of asking this additional set of questions during the second interview round was to gain more human-centred perspectives that would enrich the idea of a successful strategy in the Chinese markets. It was also decided to follow a similar framework that was demonstrated to be effective in former Case study analysis and so forth the questions were based on the same five core elements of design thinking:

- **Empathy:**
 - How empathetic Finnish companies are in China? How well or poorly Finnish companies understand their employees, partners, customers etc. in China?
- **Integrative thinking:**
 - Does Finnish companies follow similar processes and procedures in China that they follow in Finland or have they created novel solutions that go beyond and dramatically improve the existing alternatives in Chinese environment?
- **Optimism:**
 - How optimistic Finnish companies are in their actions related to China?
- **Experimentalism:**
 - How experimental Finnish companies are in their actions related to China? Do they use trial-and-error and iterative processes while developing offerings to Chinese markets?
- **Collaboration:**
 - How external and internal Sino-Finnish collaboration work? What is the situation inside companies and between company and its partners?

Based on the answers gathered throughout the ten individual interviews, results will now be analysed in following subchapters. Each subchapter will focus on one of the five elements and the idea is to go through the different perspectives that were highlighted during the interviews. Since many of the interviewees wished to be anonymous when publishing the results of the study, the research respects their wish and the following elaborations won't go into detail about who out of the ten interviewees shared the specific opinions and comments. It could also be pointed out that some of the interviews included area and company specific insights that are not public information so therefore it is also justified to present the findings in a general level.

Empathy

According to interviews, the biggest obstacle that lowers the empathy issues within the Finnish companies is the general understanding between the Finnish headquarters and the company's office or subsidiary, which is located in China. Six interviewees out of ten stated that the lack of understanding creates various difficulties and hinders the company's success in China. It was also said that Finns see China as a difficult country to operate and that cultural clashes occur due to the lack of understanding. In other words, just by learning more about

the Chinese culture, many improvements could be done with low resources. However, Finns are not the only ones who don't understand the Chinese culture properly since also other western countries suffer from the same problem. Strategic wise Finns could use the current situation for their advantage. If Finns improve their cultural knowledge and integration in China, they could increase their operational performance and be a step ahead of other western competitors.

Another negative aspect that showed up during the interviews was that Finns have prejudices and arrogance towards Chinese. This point relates as well for the lack of understanding and premade stereotypes but also to another perspective, which is the time needed to gain a proper understanding. Therefore a long-term commitment is warmly recommended. The learning curve increases exponentially, when it is compared to the time that Finns have spent in Chinese context. A better understanding also helps to overcome a problem that was pointed out by several interviewees. Typically Finns couldn't provide such solutions, which would satisfy the Chinese customers at the first stage. Either Finns didn't have a clue what Chinese customers really wanted or then they didn't have "fit for purpose" sort of solutions available.

A positive aspect that came up during the interviews was the Finnish capability to use their "soft side" within the business context. Soft side refers to matters that are not related to cold facts and figures. According to interviews Finns ability to work across organizational structures and hierarchies is an advantage in a way that Finns can understand more personally the whole organization and simultaneously see the big picture of the entire company. However, as a drawback, Chinese are more used to top-down management style and some Chinese might consider the Nordic management style as a weakness due to the lack of authoritarian commands and hierarchical leadership structures. Nevertheless, from HR point of view, the Finnish approach has also its advantages. Couple interviewees told that their company had managed to keep their employees much longer within their organizations than their competitors. Therefore Finns actions to maintain employee happiness and work well-being are very favourable since the labour turnover causes various kinds of harms for organizations.

Integrative thinking

Eight out of ten interviewees answered that Finnish companies typically enter into Chinese markets with the exactly same organizational and operational models that they follow in Finland. This sort of practice has pros and cons. Of course from company's perspective it is easy way to enter into a new market

with existing and familiar setup but on the other hand it also brings various challenges. Depending on how flexible the models are, sometimes companies really need to learn by the hard way what works and what doesn't when they enter into China. All the interviewees underlined the importance of localization and adaptation activities when new companies enter into China. The best performing companies were told to be the ones, which have started their business by respecting and understanding the local business environment and culture. However, despite it was many times said that success in Chinese markets relates heavily to company's flexibility, some of the interviewees expressed their frustration towards Finnish companies. It was said that many times Finnish companies are unwilling to modify their present models even though it might enhance their performance. The slowness of Finnish companies was also suspected to link directly into rigid bureaucracy, which is often a build-in feature in operational models that Finns follow.

Similar kinds of thoughts were also expressed during the discussions about Finnish products and services. It was told that Finns provide some China specific solutions but even then, the reason behind the existence of such a solution, were sometimes just too high costs of an original solution. This describes well the common problem within Finnish companies. Finns can't force their products into Chinese markets if they don't have an understanding of the real needs of the Chinese customers. Products, which are just stripped versions of the ones developed to western customers aren't just enough and the risk of ending up in a situation where sales arguments and buyers expectations clash is high. Again, localization and adaptation to needs of the Chinese customers plays a big role. A simple strategic guideline that improves companies' performance is investments on actions, which familiarizes the needs of Chinese customers.

Optimism

Finnish companies' optimism related to their actions in China gathered comments for and against. The question about Finnish companies' optimism was also the only one, which achieved such a diverse and dissimilar group of answers compared to other questions where the answers were surprisingly similar. It was said that Finns were previously more optimistic and currently more realistic or even pessimistic in their views. Oppositely there were also comments of super optimistic views for the future and comments of the huge shares of the markets that could be won with right actions and strategies. Some said as well that companies, which are already in China, are more optimistic than the ones, which are still in Finland. Nevertheless, most of the interviewees agreed that companies with a special expertise and valuable knowledge in their

own niche have a very good basis to succeed in the future. It was also repeated that the companies, which don't have a capability to renew themselves and adapt to the fast tempo and all the time changing environment will have a hard time in their future.

Experimentalism

Comment *"Feels like that the experimentalism isn't the Finnish way of doing"* summarizes well also the other answers, which were gathered for the question on how experimental Finnish companies are in their actions related to China. According to interviews, typically all the prototyping and other R&D activities are done in Finland and the possibility that Chinese end-user could influence the development process is small. Also different kinds of actions are planned with long-term perspectives already in Finland and the existing mentality is that let's make everything ready and hope that it works in China. Finns were also claimed to spend too much time on fine-tuning their offerings and analysing all the possible indicators that were available. So forth experimentalism isn't clearly the strength of Finns even though it was said that the whole Chinese market is a trial and error kind of environment. It was argued that experimentalism acquires too many resources and therefore it's not executed so actively. Attitudes towards experimentalism showed to be quite conservative and based on the interviews the dominant mentality favours actions, which seek to minimize the risks. One interviewee thought that experimentalism is missing since it requires Finns to go out of their comfort zone.

Collaboration

Based on the interviews, Sino-Finnish collaboration is said to be working pretty well. Finns' calm and formal style of communication is appreciated among Chinese and once both, Finns and Chinese, are more familiar with each other, it is typical that joint ventures run smoothly. However, it was several times pointed out that collaboration issues are very person specific and some Finns handle the collaboration issues better than others. Another aspect that came up many times is the importance of building good relations. The good relations were told to be critical in all business actions and it was said that it would need a lot of time and commitment to build good relationships. As a drawback for Finns, few interviewees criticized that Finns are not active and enthusiastic enough to develop their networks. These aspects were also related to Finnish shyness and mentality to stay in their comfort zones. Nevertheless, when analysing the collaboration aspects, it is easy to highlight the origin of good collaboration. Without setting up a trustful relationship between the parties, collaboration doesn't work in way it is expected. Again, the same phrase could

be repeated that improvements in mutual understanding would solve most of the existing difficulties. By focusing more on personal level understanding when running the business, many improvements could be achieved with rather low investments and resources.

13 Discussion & Conclusions

Theoretical findings and future prospects

Answer for the fundamental question; “*Would the future markets in China provide remarkable business opportunities for Finns and why Finns should consider the design knowledge while planning strategies to Chinese markets?*” is on the one hand very simple and on the other hand very complex. Starting with the simple aspects – yes, China will definitely provide an enormous amount of business opportunities, because it will provide a large number of challenges to respond and several needs to fulfill in its future, and yes, Finns should definitely pay attention to thoughts of design knowledge since according to interviews and case studies, Finns don’t yet master the human-centric approach in Chinese context, which was shown as a beneficial mean to win the hearts of Chinese consumers.

However, the future prospects in Chinese markets are complex matters to summarize within brief words. Nevertheless, while pointing out the key takeaways of the study, it can be started from the current setting of Sino-Finnish trade, which is very B2B oriented on behalf of Finns. According to the current 12th Five-Year Program and Third Plenum, Finns should put more efforts on B2C initiatives, because China purposefully turns its economy away from the country’s overreliance on investments and exports and steers the economy towards consumption-led growth. In addition, Finland has good relations with China and therefore it sets a solid basis to start new ventures, for example projects that are aimed to help China with its challenging problems like severe pollution, rapid urbanization or difficulties related to innovation management. Even though China provides numerous possibilities from a business perspective, before creating any plans or strategies, one should bear in mind that China is an enormous and fragmented market environment with various consumer groups, which each has their unique characteristics, wishes and demands.

The design knowledge elaborated in this thesis also provides a great practice and way of thinking once the market entry to China takes more wind in the sails. Probably the greatest advantage of the human-centric approach is the focus on real needs and desires of the consumers, which are too often forgotten in business practices even though market analysis and other indicators will more likely present valuable background information. To highlight the statement with an example, China’s inequality problems and all the time rising living standards of better-off citizens are clearly representing facts for and against the

future business ventures. It can be acknowledged that in the stated setting it is more and more difficult to truly understand the unique features of these diverse customers. Therefore design knowledge shares a valuable toolkit on how to understand customers better and reveal the unfolded opportunities that might be true game-changers and cash cows for companies. And for Finns, these possibilities are currently more than welcome.

Practical implications and managerial recommendations

Based on the findings of the conducted interviews and the conclusions through the theoretical overview and two case studies, it can be recommended the following guidelines for Finnish companies once they consider entry to the Chinese markets. Firstly, as pointed out in the interviews, the biggest difficulty of Finnish companies operating in China is often the lack of understanding the Chinese culture, people and business environment. Therefore the first proposal is that Finnish companies should pay a special attention in their approaches to understand and integrate into Chinese business context. One simple and reasonable recommendation to overcome this challenge would be to employ a young Chinese talent because China will have an enormous pool of highly educated graduates in the future. Graduates native understanding about China plus their advanced academic knowledge will definitely support Finnish companies in their approaches to enter into Chinese markets. In addition, as stated earlier – “...*China is not creating enough high-quality positions, which would suit the needs of its highly educated youngsters*” (p. 34) – Finnish companies could respond to China’s youth employment challenges and achieve a true win-win situation, which benefits both parties.

The second proposal for Finnish companies is that they should pay a special attention to increasing Chinese consumer market. The rapidly growing consumer market provides several business opportunities also for foreign companies because the purchasing power of Chinese consumers is increasing. The research highlights that Chinese consumers prefer high quality products even more in the future and therefore Finnish companies should use their existing reputation of high quality producers more actively. However, the high quality alone doesn’t guarantee the success in the market and if companies fail to meet the real needs and desires of their consumers, they will also lose the advantage that they could achieve by using the human-centric approaches.

It should also be acknowledged that digitalization has already lowered several entry barriers and nowadays it is rather easy to enter Chinese consumer

markets. To make this statement more concrete, it can be underlined that, *“the share of e-commerce will grow from current 6% to 16% by 2020 and simultaneously making China the biggest online market in the world”* (p. 12), which means that all Finnish companies should definitely examine their readiness to serve this increasing amount of Chinese online-shoppers. Moreover, the smallest investment and simplest action for Finnish companies would be to translate their webpage into Chinese and enter the Chinese online shopping domains, such as Taobao, which corresponds to eBay and Amazon. Already these minor procedures will help companies to increase their potential customer base and grow their business.

Previously mentioned core themes – rising standard of living, growing purchasing power, evolving urbanization and increasing attention towards sustainable solutions – can also be seen as factors, which increase the overall market demand of both, new and existing consumer items. To elaborate this comment further, it should be acknowledged that the fast economic change in China has created a situation where Chinese consumers may not have “old” products or services for reference. It means, for example, that if the Chinese haven’t got enough money to purchase a car or television before, they might afford to purchase these in the future while they become better off. To name a few examples, Finnish design furniture, gardening, fashion or energy efficient products might have potential within the increasingly wealthy Chinese middle-class. However, as said, the demand of existing items will also increase. This relates to items, which Chinese already have, but they are willing to update as newer or better versions come into market. Another point to keep in mind is the numerous lower Tier markets, which are still on an immature level in terms of total monetary consumption. Therefore, while urbanization and overall development advances, the monetary consumption will also heavily increase in these lower Tier markets. To summarize the key point of this paragraph, demand for various consumer products and services will grow especially in China’s emerging regions.

The third proposal is to increase the speed of decision-making and enhance the agility of Finnish companies in the Chinese business context. Even though the third proposal links to the first proposal, it still needs to be given a special emphasis because it is one of the most critical problems that Finnish companies are facing while operating in China. No matter which business sector Finnish companies are aiming, consumer market or B2B, companies still need to acknowledge that the tempo of the market is way much faster in China than it is in Finland. Finnish companies should also develop their capability to react faster to new offerings and requests so that they could achieve a bigger share from all the settled contracts. If Finnish companies won’t develop these skills

they will miss many proper business opportunities just because they can't respond fast enough to occurring demand.

Evaluation of the study

Nevertheless, because this thesis is based on the exploratory research methodology and design driven framework, the provided conclusion is only a one perspective and possible answer set for the stated questions. The data used in this research is also subjective since the gathered information is mainly based on secondary research in addition to individual experiences and knowledge. Therefore it can always be argued that the provided conclusion shares only a narrow insight to research topic. However, it can also be claimed that the stated conclusion and thesis in general provide an excellent starting point to conduct a more in-depth analysis of the topic, because it shares wide-ranging information and several challenges which to tackle in future studies.

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Appendix 1. Data sources.

Academic sources:

Cross Cultural Management: An International Journal:

<http://www.emeraldinsight.com/journals.htm?issn=1352-7606>

Design Management Review: www.dmi.org

Eurasian Geography and Economics: www.tandfonline.com/rege

Harvard business review: <http://hbr.org/>

Hong Kong Institute of Business Studies: www.ln.edu.hk/hkibs/

IEEE Transactions on Engineering Management: <http://ieeetmc.org/tem>

International Journal of Research and Development: <http://ijrdonline.com/>

Journal of Business Strategy:

<http://www.emeraldinsight.com/journals.htm?issn=0275-6668>

Journal of Consumer Marketing:

<http://www.emeraldinsight.com/journals.htm?issn=0736-3761>

Long Range Planning: <http://www.journals.elsevier.com/long-range-planning/>

REDIGE: <http://www.cetiq.t.senai.br/dcb/ead/redige/index.php/redige/index>

Wharton University of Pennsylvania: www.wharton.upenn.edu

Global institutions:

Asian Development Bank: www.adb.org

CIGI: www.cigionline.org

Euromonitor International: www.euromonitor.com

Europe China Research and Advice Network: www.euecran.eu

European Council of Foreign Relations: www.ecfr.eu

IMF: www.imf.org

OECD: www.oecd.org

The World Bank: www.worldbank.org

United Nations: www.un.org

National institutions:

Aalto University – CEMAT: <http://cemat.aalto.fi/fi/>

British Chamber of Commerce in China: www.britishchamber.cn

Embassy of the People's Republic of China in Ireland: <http://ie.china-embassy.org/eng/>

EVA: www.eva.fi

National Intelligence Council: www.dni.gov

Suomen Suurlähetystö (China): www.finland.cn

Tekes: www.tekes.fi

The Central People's Government of The People's Republic of China: www.gov.cn

Tulli: www.tulli.fi

U.S. Commercial Service: www.trade.gov/cs/

Consultancy companies:

Accenture: www.accenture.com

APCO Worldwide: www.apcoworldwide.com

Booz&Co (currently Strategy&): www.strategyand.pwc.com

Grant Thornton: www.grantthornton.com

KPMG: www.kpmg.com

McKinsey&Company: www.mckinsey.com

Nielsen: www.nielsen.com

Roland Berger: www.rolandberger.com

News portals:

BBC: www.bbc.com

Bloomberg News: www.bloomberg.com

Business Insider: www.businessinsider.com

Businessweek: www.businessweek.com

China Daily: www.chinadaily.com.cn

CNBC: www.cnbc.com

CNN: www.cnn.com

Forbes: www.forbes.com

Global Times: www.globaltimes.cn

Helsingin Sanomat: www.hs.fi

MTV: www.mtv.fi

South China Morning Post: www.scmp.com

The Economist: www.economist.com

The Guardian: www.theguardian.com

The Wallstreet Journal: <http://online.wsj.com/>

Turun Sanomat: www.ts.fi

Magazines:

China Business Review: www.chinabusinessreview.com

China US Focus: www.chinausfocus.com

Foreign Policy Webzine: www.foreignpolicy.com

News China Magazine: www.newschinamag.com

ParisTech Review: www.paristechreview.com

Tech in Asia: www.techinasia.com

The Diplomat: <http://thediplomat.com/>

The Week: <http://theweek.com/>

Other sources:

ChangeThis: <http://changethis.com/>

East Asia Forum: www.eastasiaforum.org

IDEO: www.ideo.com

TED: www.ted.com

Appendix 2. Interview dates, persons and their backgrounds.

1st interview round

- 5.5.2014 Timo Laurila
Executive Director
Finnish Business Council Shanghai
Consulting industry
4 years in China
- 6.5.2014 Oskar Helling
Founding Partner and Chief Analyst of Asia8Group
Asia8Group
Consulting industry
7 years in China

2nd interview round

- 5.6.2014 Jouni Lemmetti
Plant Manager
AGCO Genpowex Shanghai Co.,Ltd
Machinery industry
9 years in China
- 9.6.2014 Markku Hyvärinen
Managing Director
Gutmann Construction Material (Shanghai) Co.,Ltd
Aluminium industry
20 years in China
- 10.6.2014 Sari Arho Havrén
Consul (Innovation)
Consulate General of Finland, Shanghai
TEKES, The Finnish Funding Agency for Innovation
Governmental industry
24 years in China
- 12.6.2014 Annina Suves
Nordea Markets FICC

	Nordea Bank AB, Shanghai Branch Banking industry 9 months in China
12.6.2014	Matti Silvennoinen General Manager Propulsion Products Marine & Cranes ABB Engineering (Shanghai) Ltd. Marine industry 2 years in China
13.6.2014	Marko Salovaara Managing Director OEM Automatic (Shanghai) Co., Ltd. Industrial automation industry 3 years in China
13.6.2014	Markus Huuskonen Director, Operational Excellence Service Business, Greater China KONE Elevators Co., Ltd. Elevator and escalator industry 1,5 years in China
19.6.2014	Tero Kosonen Managing Director, Asia-Pacific MPS China Management Consulting Co., Ltd. Consulting industry 20 years in China
19.6.2014	Esa Niemi Senior Technical Head Asia Pacific Resources International Holdings (APRIL) Ltd. Paper & Forest Products industry 16 years in China
25.6.2014	Joonas Viitala Country Director, China Rovio Entertainment Ltd. Gaming & Entertainment industry 10 months in China

Appendix 3. Interview questions and topics (1st round of interviews)

In general point of view and according to your knowledge and experience:

Historical point of view:

- What have been the biggest **difficulties** of Finnish companies operating in China?
- What have been the biggest **advantages** of Finnish companies operating in China?
- How the Sino-Finnish **co-operation** has worked and how to Finnish companies has succeeded to build their **networks** (Guanxi) in China?

Future point of view:

- How do you see **the future business opportunities** of Finnish companies in Chinese markets?
- Which are the **first steps** that Finnish companies should take once considering entry to Chinese markets? Which are the biggest pitfalls and which guidelines Finnish companies should especially bear in their mind?
- How Finnish companies could gain **bigger shares** of the Chinese markets? What is the competition setting now and in the future?

Relation to Chinese customer base:

- Describe **the typical relationship** between a Finnish company and a Chinese customer; what are the difficulties and what are the advantages?
- Which are **the factors** why Chinese has purchased Finnish products or services? Can you share the common characteristics of them?
- Describe the factors behind **the most successful** products or services in Chinese markets? Why some, domestic or foreign products or services are more popular in Chinese markets than others?

Appendix 4. Interview questions and topics (2nd round of interviews)

In general point of view and according to your knowledge and experience:

TOWS

What are the strengths of Finnish companies operating in China?

What are the weaknesses of Finnish companies operating in China?

What kind of opportunities Finnish companies can find from China's future markets?

What kind of threats Finnish companies can face in China's future markets?

Design Thinking

Empathy:

How empathetic Finnish companies are in China? How well or poorly Finnish companies understand their employees, partners, customers etc. in China?

Integrative thinking:

Does Finnish companies follow similar processes and procedures in China that they follow in Finland or have they created novel solutions that go beyond and dramatically improve the existing alternatives in Chinese environment?

Optimism:

How optimistic Finnish companies are in their actions related to China?

Experimentalism:

How experimental Finnish companies are in their actions related to China? Do they use trial-and-error and iterative processes while developing offerings to Chinese markets?

Collaboration:

How external and internal Sino-Finnish collaboration work? What is the situation inside companies and between company and its partners?

Appendix 5. Answers of 2nd round of interviews

Results of second interview round which included ten different interviews in total. Amount of similar answers is marked in brackets after the answer.

What are the strengths of Finnish companies operating in China?

- High technical competence and knowhow (7)
- Finnish products has a good quality (5)
- Finland is a neutral Country (4)
- Innovation capability and China's need for new ideas (3)
- Corporation culture in Finnish companies (3)
- Good reputation of Finland in China, good brand (3)
- Reliable partner for Chinese (3)
- Good relations with China (2)
- Good products and services (2)
- Don't "show off" / shyness (2)
- Persistent mentality (2)
- Good knowledge in strategic sectors (Machine building, ICT, Health, Pulp & Paper, Bio, Marine industries) (2)
- Design and industrial design knowhow (2)
- Nordic country (1)
- European / Nordic way of doing business (1)
- Small country, not like USA (1)
- One of the first countries which recognized the PRC (1)
- Historical facts → Finland has been in right time in right place (1)
- Doesn't sell only products but also knowledge around it (1)
- Good brand with large Finnish companies (1)
- Holistic know how in business (1)
- Intangible expertise (1)
- Formal way of communication (not going into personal matters) (1)
- Finns are easy to talk with (1)
- Finland's strong efforts towards national education (1)
- Sales (1)
- Logistics (1)
- Well performers (successful Finnish companies) had understood the importance of mid-segment (1)
- Presence of B2B companies (1)
- Various solutions within "proven technology" segment (1)
- Service culture (1)

- Financial innovations (1)
- Ability to keep Chinese workers longer in company / better offerings for employees (salary, vacation possibilities, well-being in work etc.) (1)
- B2B engineering (1)
- Modesty (1)
- Knowhow related to urbanization (1)
- Play by the rules (can be negative as well) (1)
- Finns help each other, pull the same rope (1)
- Holistic perspective of doing business (1)
- Not too fast on making decisions (1)
- Finns are open to new cultures / adaptive nature (1)

What are the weaknesses of Finnish companies operating in China?

- Finns are slow in decision-making & Reaction time (6)
- Finns doesn't know the Chinese culture properly (5)
- No capability or courage to take risks / Fear of risks (4)
- Finns are impatient → Finnish companies want profits immediately even though it takes few years to run business profitably in China (3)
- No B2C knowledge and business (3)
- Finns doesn't speak Chinese (3)
- Sales, marketing (3)
- "Over designing" → Too high quality (2)
- Small scale production doesn't interest Chinese, too low volumes (2)
- Finnish SMEs lack of money/resources (2)
- Hardness to find right contacts/information/partners (2)
- Don't know why they come to China (2)
- Don't explore the market properly, haven't done homework's before entry (2)
- Only few people takes care of everything to run business in China (2)
- Too technical products (1)
- Tendency to speak Finnish in Finnish organizations (1)
- Finns think that they are better than others (1)
- Finnish SMEs are very small in global scale (1)
- Small scale business (1)
- Don't have proper China strategy / Creation of a strategy is difficult (1)
- Lack of personnel who speaks Chinese → Have to hire ones → Costs (1)
- Don't know the right customers (1)
- We think that we know what Chinese want (1)
- Doesn't listen to Customer (1)

- Distribution (1)
- Too heavy relation on local knowhow and personnel (1)
- Lack of flexibility in processes (1)
- Too heavy relation in own processes (1)
- Fragmented operational field (1)
- Bureaucracy (1)
- Don't know how to brand ourselves (1)
- Strong new brands are not linked into Finland (1)
- Shyness and modesty (1)
- Competing against big countries (1)
- Operations are in small scale (1)
- M&A isn't used in effective way (1)
- Lack of active business development in China (1)
- Lack of growth (1)
- Ways of working → Regulation processes take too much time (1)
- Follow too strictly the rules and regulations (1)
- Lack of agility (1)
- No expertise in new industries (1)
- Some matters have to learn the hard way – no possibility to buy such a knowledge before (1)
- Knowledge transformation from traditional industries to new industries is difficult (1)
- Fear of making mistakes (1)
- Too much time used in analysing different matters (1)

What kind of opportunities Finnish companies can find from China's future markets?

- Cleantech and other solutions to overcome the existing environmental issues (pollution etc.) (6)
- Growth in consumer products (5)
- Growth of China's own market (4)
- Food industry (4)
- How to get more Chinese tourist to Finland? (3)
- Urbanization (3)
- Rise of automation → Knowledge, education, machines etc. (3)
- Mobilization of machinery / Internet of things (2)
- Size of the markets (2)
- Development of new service culture / Possibilities in service sector (2)
- Health technologies (2)
- Growth of China's inland (2)

- M&A can make better access and resources to China and also to other markets like Africa (2)
- Chinese want to buy western products (1)
- Rise of whole South East Asia (1)
- Organic products (1)
- Technology export to developing regions / Basic technology (2)
- Finnish design knowledge (1)
- Customers seeks for excitement / Thrill (1)
- Chinese open-mindedness to try new (1)
- Rise in added value (1)
- Engineering knowhow (1)
- Growing middle class (1)
- Agricultural, food, marine machines (1)
- Some companies leave China (1)
- Increasing mobile technologies (1)
- Tailored solutions (1)
- Big metropolis and cities (1)
- Understanding the importance of social media → Risks! (1)
- Rise in safety (1)
- Finnish companies are good M&A targets (1)
- Trading business (1)
- Co-operation possibilities (1)
- If going out of the comfort zone can provide great opportunities in developing regions (1)
- Developing energy solutions (1)
- New solutions in chemistry & medical sector? (1)
- Digital revolution and new digital industries (1)
- ICT opportunities (1)
- Barrier of entry is smaller in ICT sector & bigger possibilities (1)

What kind of threats Finnish companies can face in China's future markets?

- IPR & Copyright issues (5)
- Political matters (5)
- Changes in regulations (4)
- No possibility to long term planning, fast changes, hard to predict changes (3)
- Protectionism (3)
- Competition becomes harder/more players, one of the most competed market (2)

- Chinese companies become more and more international (2)
- Increasing salaries (2)
- Raising costs (2)
- Inequality problems, coast vs. inland (2)
- Trade volume has to be high and products cheap (2)
- Chinese own knowledge increases (2)
- Chinese are hunting for more knowledge and IP (1)
- Brand recognition (1)
- How to protect own brand (1)
- Incredible speed in general development (1)
- Talent war (1)
- How to make “good enough” products (1)
- How to create and deal with right partnerships (1)
- Have to operate in China if you operate in global scale (1)
- Different working culture - speed is much faster in China (1)
- Automation (1)
- Internet of things (1)
- E-commerce knowledge is missing (1)
- Finnish companies don’t have proper big data knowledge and resources (1)
- Finnish lack of willingness to operate in China (1)
- Favouring local/Chinese companies (1)
- High end tech innovations and design isn’t imported to China due IPR risks (1)
- China is raising superpower (1)
- China isn’t only the world factory anymore in the future (1)
- Hard to transfer money in/out to China (1)
- New companies and innovations from China (1)
- R&D is Chinese from start to end (1)
- Too difficult to operate in China (1)
- Giving too much control for Chinese is risky (1)
- How to find proper balance between Finnish and Chinese way of work and do business (1)
- Manufacturing industry is gone (1)
- Fragmented operation field (1)
- Too low investments (1)
- Bribery & corruption (1)
- Permission processes and problems related to it (1)
- Digital revolution (1)
- China’s economical and financial development and risks related to it (1)
- How to find the right partner (1)